ALBERTA
LEGISLATURE

REPORT OF THE

AUDITOR GENERAL

FOR THE YEAR ENDED MARCH 31, 1985

Alberta Legislature

Office of the Auditor General

Dr. C.R. Elliott, M.L.A.
Chairman of the Select Standing Committee
on Legislative Offices

I have the honour to transmit herewith my Report to the Legislative Assembly for the fiscal year ended March 31, 1985, to be laid before the Legislative Assembly in accordance with the requirements of section 19(4) of the Auditor General Act.

F.C.A.
Auditor General

Edmonton, Alberta
February 13, 1986

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REPORT OF THE AUDITOR GENERAL OF ALBERTA

FOR THE YEAR ENDED

MARCH 31,1985

SECTION 1 — INTRODUCTION

This section explains the purpose of this report and contains the Auditor General's overall assessment of the Province's financial administration during the 1984-85 fiscal year of the Crown.

1.1 FOREWORD

1.1.1 This is the seventh annual report of the Auditor General to the Legislative Assembly of Alberta. It covers the fiscal year of the Crown ended March 31, 1985 and discharges the reporting requirements of section 19 of the Auditor General Act.

The Auditor General Act is Chapter A-49, Revised Statutes of Alberta 1980 and is reproduced in Appendix III of this report.

1.1.2 The annual audits of many Provincial agencies and funds are not finalized until well into the following fiscal year. This is inevitable because of the time needed for management to identify, quantify and verify year-end assets and liabilities and to prepare financial statements. When this happens, the audit work includes reviewing the entities' activities during the period between the fiscal year end and the audit completion date. For this reason, this report includes observations and recommendations that arose from auditing performed during the 1985-86 fiscal year.

1.2 OVERALL ASSESSMENT

1.2.1 This report contains matters reportable pursuant to section 19 of the Auditor General Act that the Auditor General believes should be brought to the attention of the Legislative Assembly.

1.2.2 Most of the matters reported herein are instances of legislative non-compliance, systems weaknesses and accounting inadequacies, because these are the kind of irregularities and shortcomings that are required to be reported under section 19 of the Auditor General Act. Reports of this nature are reports by exception; they are not and cannot be balanced evaluations of the Province's financial administration. Accordingly, it is important to acknowledge that most 1984-85 audits revealed no irregularities or shortcomings considered important enough to be reported to the Legislative Assembly.

1.2.3 This overall assessment of the Province's financial administration must not detract from the importance of the observations and related recommendations contained in this report. Nevertheless, based on the work of the Audit Office, the Auditor General considers that the financial affairs of the Province continued to be administered in a generally satisfactory manner during the 1984-85 fiscal year of the Crown. Moreover, the financial records and controls maintained by most Provincial entities generally continued to improve. Many previously reported problems have now been substantially eliminated, due mainly to the prompt and positive response that audit findings and recommendations normally receive from all levels of management.

Recommendations

1.2.4 This report, like its predecessors, is "recommendation oriented". As such, the reported shortcomings and irregularities are accompanied by recommendations designed to eliminate or correct them. Each year, the Provincial Treasurer responds formally to the recommendations contained in the Auditor General's annual report in a report to the Select Standing Committee on Public Accounts.

1.2.5 The Provincial Treasurer's responses to the Auditor General's 1983-84 annual report recommendations are reproduced in Appendix I of this report. Most of the responses indicate general agreement with the positions taken by the Auditor General and a willingness to implement the recommendations.

Looking back over the Auditor General's first six annual reports reveals that they contained 157 specific recommendations. Of these, 17 are carried forward in this report, while 10 others are in the special section for recommendations from previous annual reports that were rejected or are not completely resolved. Accordingly, 130 of the recommendations from the first six reports were either implemented or, as was the case in a few instances, situations changed to render the recommendations redundant.

Acknowledgements

1.2.6 An auditor's responsibilities can be discharged more efficiently with the co-operation and assistance of those whose affairs are audited. The Auditor General is pleased to acknowledge with gratitude the excellent co-operation and assistance that management and staff of departments and agencies have extended to staff and agents of the Audit Office during the course of their work.

1.2.7 Next year's annual report will be issued by Mr. D.D. Salmon, C.A. who has been selected to be my successor as Auditor General. As the present Auditor General, I would like to take this opportunity to say a special thank you to those members of staff who during the past thirteen years have served the Office and the Province so industriously and well. Their professionalism and their loyalty are greatly appreciated.

SECTION 2 — PUBLIC ACCOUNTS

This section contains supplementary information on the Province's 1984-85 operating results and the audit of the published figures.

2.1 INTRODUCTION

2.1.1 The public accounts of the Province for the year ended March 31, 1985 are published in two volumes. Volume I contains the financial statements, together with reports of the Auditor General thereon, of the consolidated financial statements of the Province of Alberta, the financial statements of the General Revenue Fund, and the financial statements of revolving funds, regulated funds, Provincial agencies and trust funds administered by the Government.

Volume II contains details of expenditures and revenues by department and other statements and reports included in the public accounts to comply with the Financial Administration Act and other statutes. In addition, a third volume containing details of expenditure by payee is published as supplementary information.

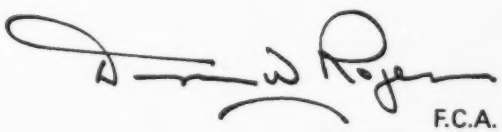
2.1.2 The Auditor General reported on the Province's 1984-85 consolidated financial statements as follows:

AUDITOR'S REPORT

To the Members of the
Legislative Assembly

I have examined the consolidated statement of reported assets, liabilities and net assets of the Province of Alberta as at March 31, 1985 and the consolidated statements of revenue and expenditure and changes in financial position for the year then ended. My examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as I considered necessary in the circumstances.

In my opinion, these consolidated financial statements present fairly the financial position of the Province of Alberta as at March 31, 1985 and the results of its operations and the changes in its financial position for the year then ended in accordance with the disclosed basis of accounting, considered appropriate in the circumstances, as described in Note 1 to the consolidated financial statements applied, after giving retroactive effect to the changes in accounting policy and reporting practice as explained in Note 2 to the consolidated financial statements, on a basis consistent with that of the preceding year.



F.C.A.
Auditor General

Edmonton, Alberta
February 13, 1986

2.1.3 The above auditor's report covers the consolidated financial statements of the Province. A similar auditor's report (see Volume I) covers the financial statements of the General Revenue Fund and the more detailed information of departmental expenditures and revenues contained in the first twenty-five sections of Volume II.

The volume containing details of expenditure by payee is not covered by the auditor's reports mentioned in the previous paragraph since it is not an integral part of public accounts. However, the system that processes the information contained therein is reviewed periodically by the Audit Office.

2.1.4 The above Auditor's Report, together with the overall assessment in section 1.2 of this report, is the culmination of most of the work done each year by the Audit Office. In effect, however, the report covers more than just the consolidated financial statements and the consolidation pro-

cess. It also covers the 1984-85 audits performed by the Audit Office of the various consolidated entities. These include the General Revenue Fund, the Alberta Heritage Savings Trust Fund and approximately seventy Provincial agencies and other funds.

2.1.5 These audits, together with the annual audits of the universities, colleges, technical institutes, hospitals and irrigation districts, are performed in accordance with generally accepted auditing standards duly augmented as explained in subsection 4.3.27 of this report. These augmentations are designed to identify and report on system deficiencies and instances of non-compliance with legislative authorities that may not be revealed by conventional financial audits.

In broad terms, these augmentations include ensuring that all transactions selected for audit examination are also reviewed to see whether they have adequate legislative authority. In addition, all significant accounting and financial control systems are reviewed so that apparent weaknesses can be reported to management and, where appropriate, to the Legislative Assembly. Key financial controls in many of these systems are compliance tested to determine whether they are working effectively. Significant financial systems that are not tested each year are compliance tested every few years on a rotational basis. In addition, other non-financial management control and information systems are audited for existence and adequacy on a selective basis.

2.1.6 Audits that combine all of the above elements (i.e. audit of financial statements, audit for compliance with authorities, and audit of accounting and management control systems) may be termed comprehensive audits. Accounting systems and management control systems are both component parts of internal control. In this context, internal control is used in the broader sense as described in section 5200 of the Canadian Institute of Chartered Accountants Handbook. That is, a plan of organization and all co-ordinate systems established by management to assist in achieving management's objective of ensuring, as far as is practical, the orderly and efficient conduct of its operations including the safeguarding of assets, the reliability of accounting records and the timely preparation of financial information.

2.2 CONSOLIDATED FINANCIAL STATEMENTS OF THE PROVINCE OF ALBERTA

2.2.1 The consolidated financial statements of the Province are an aggregation of the financial statements of most of the entities administered by the Province of Alberta. In effect, the consolidation combines the operating results and financial affairs of the General Revenue Fund, the Alberta Heritage Savings Trust Fund and most of the entities whose financial statements are published in Volume I of the public accounts.

The consolidation does not include the Provincially administered universities, colleges, technical institutes, hospitals and related funds listed in subsection 4.1.3 of this report. They are excluded because subsection 2(5) of the Financial Administration Act specifically exempts the Act's application to these entities.

2.2.2 Since 1978-79 when consolidated statements were first published for Alberta, the Government has continued to refine the consolidation methods used and will undoubtedly continue to do so in future. Nevertheless, the Auditor General believes that the consolidated financial statements now constitute the best available basis for reviewing the overall financial position of the Province and its annual operating results. As such, the following comments should not be read as criticisms; rather, they are provided to assist the reader to better understand the published figures.

Consolidated Operating Results

2.2.3 The consolidated financial statements show that for the 1984-85 fiscal year, the Province recorded a consolidated net revenue, ie. an annual surplus, of $1,246 million (1983-84 $127 million). They also show that at March 31, 1985, the consolidated net assets of the Province, ie. the accumulated surplus, was $12.6 billion (March 31, 1984 — $11.4 billion).

Despite the comments in subsection 2.2.2 above, these figures must be viewed in the context of the accounting policies and consolidation methods used in preparing the consolidated financial statements. Although these policies and methods are employed and accepted by many governmental jurisdictions and are explained in a note to the consolidated financial statements, they are not, in several respects, the generally accepted accounting principles that apply to profit oriented organizations.

2.2.4 For example, the consolidation does not include the financial statements of the Provincially owned universities, colleges, technical institutes, and hospitals. If the recorded net assets of these entities were included in the consolidation, the Province's accumulated surplus at March 31, 1985 would be increased by approximately $47 million.

2.2.5 In addition, most of the Province's fixed assets are excluded from the consolidation. This means that the accumulated surplus at March 31, 1985 does not include the value of land, buildings, equipment, fixtures and furniture owned by the Province, or the millions of hectares of Crown lands and the resource rights that attach thereto. Similarly, the accumulated surplus does not include the value of most inventories of consumable supplies and materials at March 31, 1985. The effect of these accounting policies is that the costs of fixed assets and consumable inventories are treated as expenditures in the fiscal years in which they are acquired, rather than in the years in which they are consumed or the benefits from their acquisition are realized.

An exception to the accounting policy of excluding fixed assets and consumable inventories from the consolidation is the treatment of those entities designated "commercial enterprises" by the Treasury Department. Although the assets and liabilities of commercial enterprises are not aggregated on a line-by-line basis in the consolidated financial statements of the Province, they are recorded therein on an equity accounting basis. This has the effect of including the value of their inventories and the depreciated value of their fixed assets in the computation of the accumulated surplus of the Province. Entities designated commercial enterprises are:

Alberta Liquor Control Board
Alberta Terminals Ltd.
The Alberta General Insurance Company

The Alberta Government Telephones Commission
The Workers' Compensation Board
Treasury Branches Deposits Fund

The rationale for including the assets of these entities is that the assets will be used in future fiscal periods to earn revenue. The remainder of the Province's fixed assets are not included in the consolidated net assets. It is impossible for the Audit Office to estimate, with any degree of accuracy, the value of the excluded fixed assets and consumable inventories.

Regardless of the valuation method used, it is obvious that including all of the Province's fixed assets and consumable inventories in the consolidated statements would increase significantly the Province's accumulated surplus at March 31, 1985.

2.2.6 Another accounting policy that has a significant impact on the accumulated surplus is the method used to account for the Province's pension plan liabilities. As explained in subsection 3.5.7 of this report, the unfunded portion of the Province's pension plan liabilities is recorded in a footnote to the consolidated financial statements. Hence, it is not included in the computation of the accumulated surplus. Depending on the assumptions made in calculating the liability, and assuming that no portion of it is deferred, including the full liability for pension plan obligations would reduce the Province's accumulated surplus at March 31, 1985 by more than $4 billion.

2.2.7 The foregoing comments are to provide the reader with a better understanding of the consolidation process and what the accumulated surplus at March 31, 1985 represents. Except for the non-inclusion of the full pension plan liabilities, they should not be interpreted as criticisms of the methods used.

2.2.8 The Province's consolidated operating results for the three years ended March 31, 1985 were as follows:

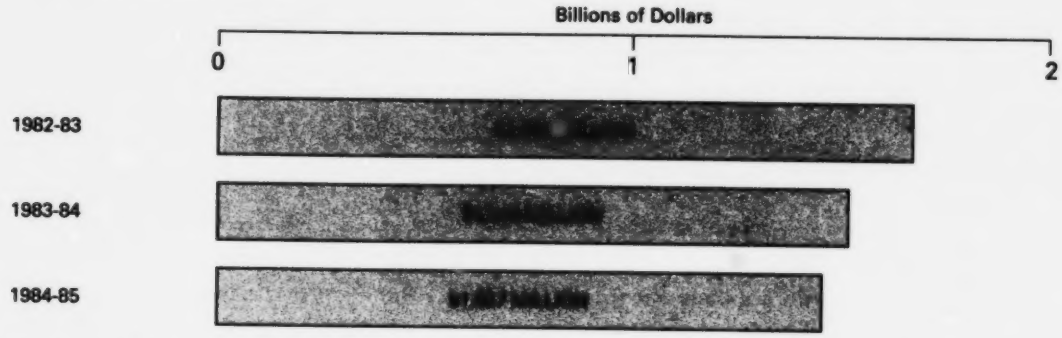
	1984-85	1983-84	1982-83
		(Millions of Dollars)	
Revenue	$12,757	$11,460	$10,549
Expenditure	11,511	11,333	11,351
Annual surplus (deficit)	1,246	127	(802)
Accumulated surplus at beginning of year	11,389	11,262	12,064
Accumulated surplus at end of year	$12,635	$11,389	$11,262

2.2.9 Consolidated revenue comprises:

	1984-85	1983-84	1982-83
		(Millions of Dollars)	
Taxes	$ 2,785	$ 2,759	$ 2,663
Non-renewable resource revenue	5,229	4,779	4,108
Payments from Government of Canada	1,647	1,274	1,167
Fees, permits and licenses	513	467	386
Utility and trading profits	369	163	220
Investment income	2,013	1,852	1,823
Other	201	166	182
	$12,757	$11,460	$10,549

2.2.10 The following charts and comments illustrate and explain some of the more significant variances and trends in the Province's consolidated revenues:

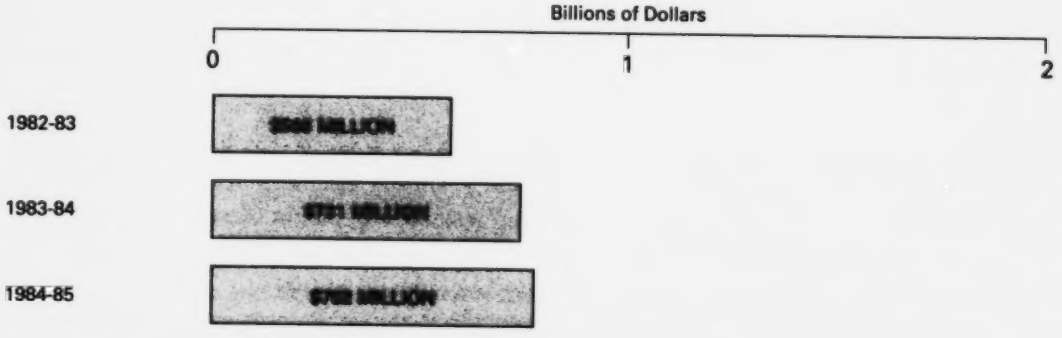
Personal Income Taxes, Net



Net personal income taxes decreased by $152 million or 9.1% in 1983-84 compared to the previous fiscal year, and by $53 million or 3.5% in 1984-85 compared to 1983-84.

A major reason for the 1984-85 decrease was an increase from $250 to $500 in the maximum claim allowable under the Province's renter assistance credits program; credits allowed in 1984-85 increased by $47 million over the previous year. Otherwise, these fluctuations reflect mainly the Government of Canada's estimates of the changing incomes of individuals resident in Alberta. Appendix II to this report contains analyses of the Province's taxation revenues and explains how Government of Canada estimates initially determine the amounts of personal income taxes received each year by the Province.

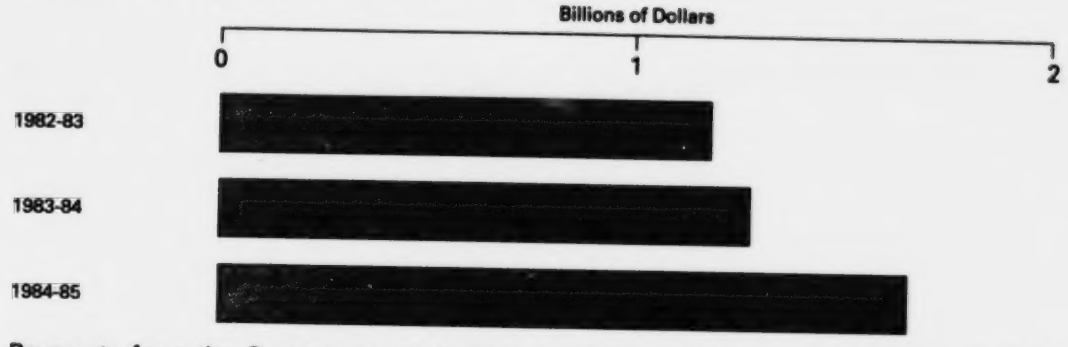
Corporate Income Taxes, Net



Net corporation income tax increased by $165 million or 29.2% in 1983-84 compared to the previous fiscal year, and by $31 million or 4.2% in 1984-85 compared to 1983-84.

The main reason for the increase in 1983-84 was an increase of $134 million in corporate tax assessments and instalments received on account.

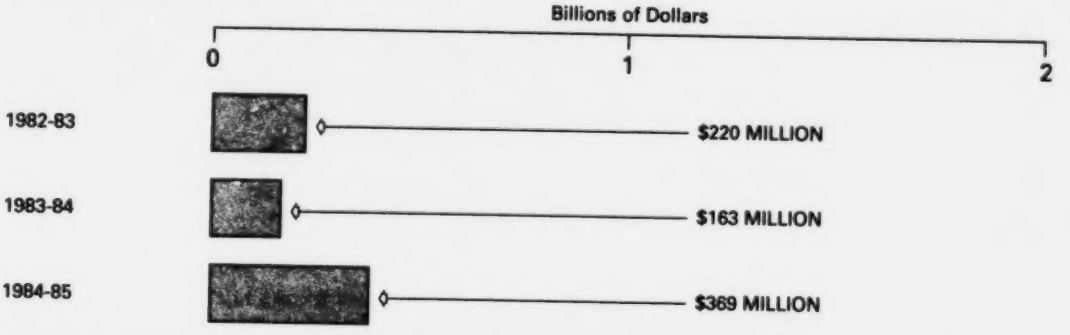
Payments from the Government of Canada



Payments from the Government of Canada increased by $107 million or 9.2% in 1983-84 compared to the previous fiscal year, and by $373 million or 29.3% in 1984-85 compared to 1983-84.

The main reasons for the 1984-85 increase were a $185 million increase in funding received under the Established Programs Financing (primarily $128 million for insured health services and $51 million for post-secondary education), and a $109 million increase in oil export charges.

Utility and Trading Profits



Utility and trading profits decreased by $57 million or 25.9% in 1983-84 compared to the previous fiscal year, and increased by $206 million or 126.4% in 1984-85 compared to 1983-84.

The main reason for the 1984-85 increase was a $155 million increase in the income of The Workers' Compensation Board.

Non-Renewable Resource Revenue

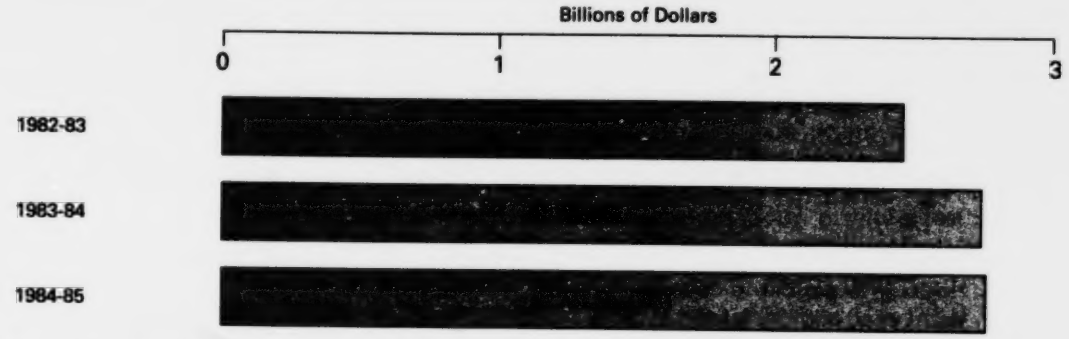
For comparative information on non-renewable resource revenue, see subsection 2.2.16.

2.2.11 Consolidated expenditure comprises:

	1984-85	1983-84	1982-83
		(Millions of Dollars)	
Health	$ 2,731	$ 2,724	$ 2,438
Education	2,385	2,249	2,101
Social services	1,052	986	905
Regional planning and development	700	610	625
Housing	147	427	476
Recreation and culture	227	199	269
Environment	147	181	205
Resource conservation and industrial development	1,423	1,353	1,833
Transportation and utilities	1,348	1,395	1,521
Protection of persons and property	388	383	353
General government	661	659	737
Valuation adjustments	302	167	(112)
	$11,511	$11,333	$11,351

2.2.12 The following charts and comments illustrate and explain some of the more significant variances and trends in the Province's consolidated expenditures:

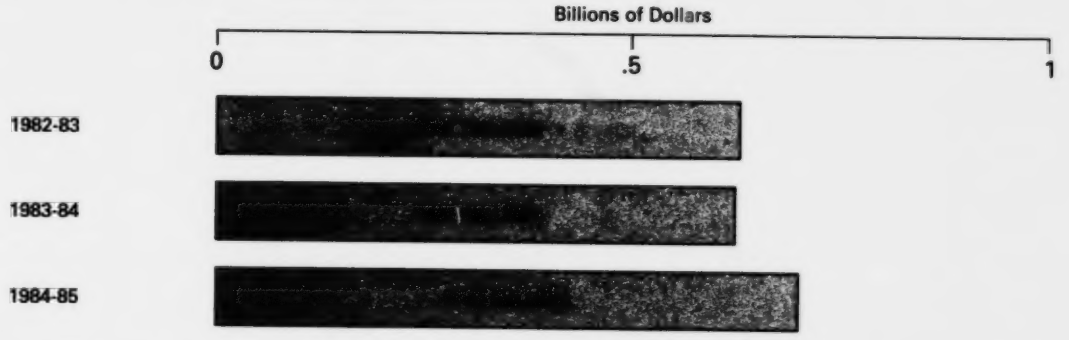
Health



Health expenditure increased by $286 million or 11.7% in 1983-84 compared to the previous fiscal year, and by $7 million or 0.3% in 1984-85 compared to 1983-84.

The main reasons for the 1983-84 increase were a $101 million increase in operating grants to active care hospitals, a $64 million increase in the expenditure of the Health Care Insurance Fund (mainly because medical health services costs increased by $42 million), and a $47 million increase in financial assistance for capital construction at various provincial hospitals.

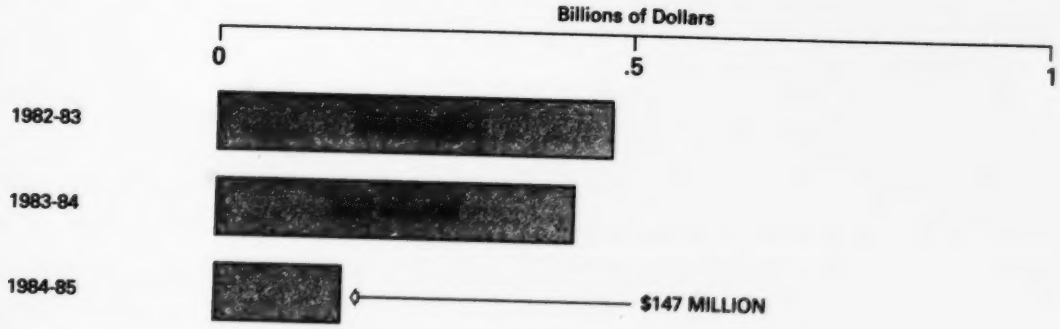
Regional Planning and Development



Regional planning and development expenditure decreased by $15 million or 2.4% in 1983-84 compared to the previous fiscal year, and increased by $90 million or 14.8% in 1984-85 compared to 1983-84.

The main reasons for the 1984-85 increase were a $58 million increase in the interest expenditures of the Alberta Municipal Financing Corporation and a $30 million increase in the land acquisition expenditures of the Land Purchase Fund.

Housing

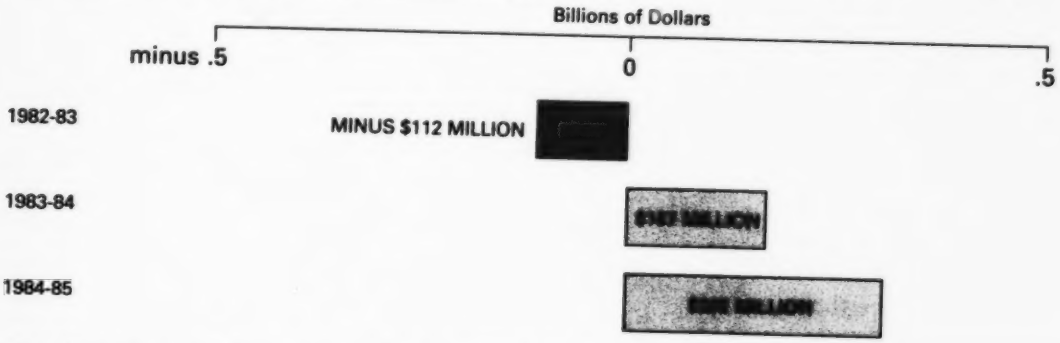


Housing expenditure decreased by $49 million or 10.3% in 1983-84 compared to the previous fiscal year, and decreased by $280 million or 65.6% in 1984-85 compared to 1983-84.

The main reasons for the 1984-85 decrease were a $150 million decrease in capital expenditure projects of the Alberta Mortgage and Housing Corporation, an $80 million decrease in expenditures under the Alberta Heritage Fund Mortgage Interest Reduction Program, and a $50 million decrease in expenditures under the Alberta Pioneer Repair and Seniors Home Improvement Programs.

Valuation Adjustments

Valuation adjustments are adjustments to doubtful debt allowances and to provisions to adjust current assets to market or net realizable values.



The charge to valuation adjustments increased by $279 million in 1983-84 compared to the previous fiscal year, and by $135 million or 80.8% in 1984-85 compared to 1983-84.

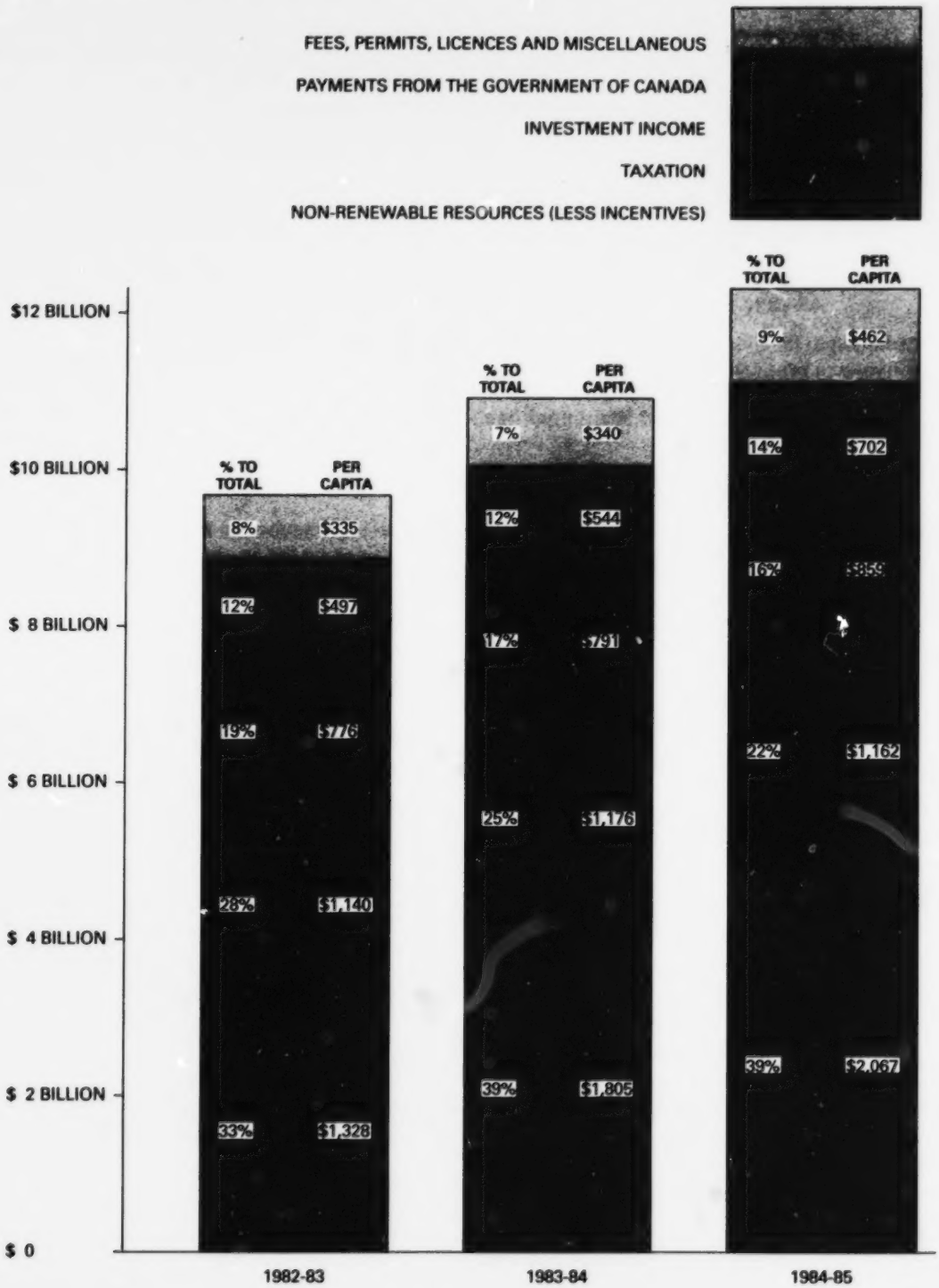
The main reasons for the 1983-84 increase were a $204 million increase in the provision for reducing the carrying value of investments to market value, and a $72 million increase in the provision for doubtful accounts and loans resulting mainly from the provision for loss on claims of $97 million of the Alberta Mortgage and Housing Corporation.

The main reason for the 1984-85 increase was a $137 million increase in the provision for loss on claims and for the decline in real estate values of the Mortgage Insurance Fund of the Alberta Mortgage and Housing Corporation.

2.2.13 In the public accounts, financial information is properly displayed in a way that satisfies the prevailing legislation and is in accordance with acceptable government reporting practices. Pursuant to subsection 19(3)(b) of the Auditor General Act, however, the following charts display some of the same financial information in an alternative and simplified manner.

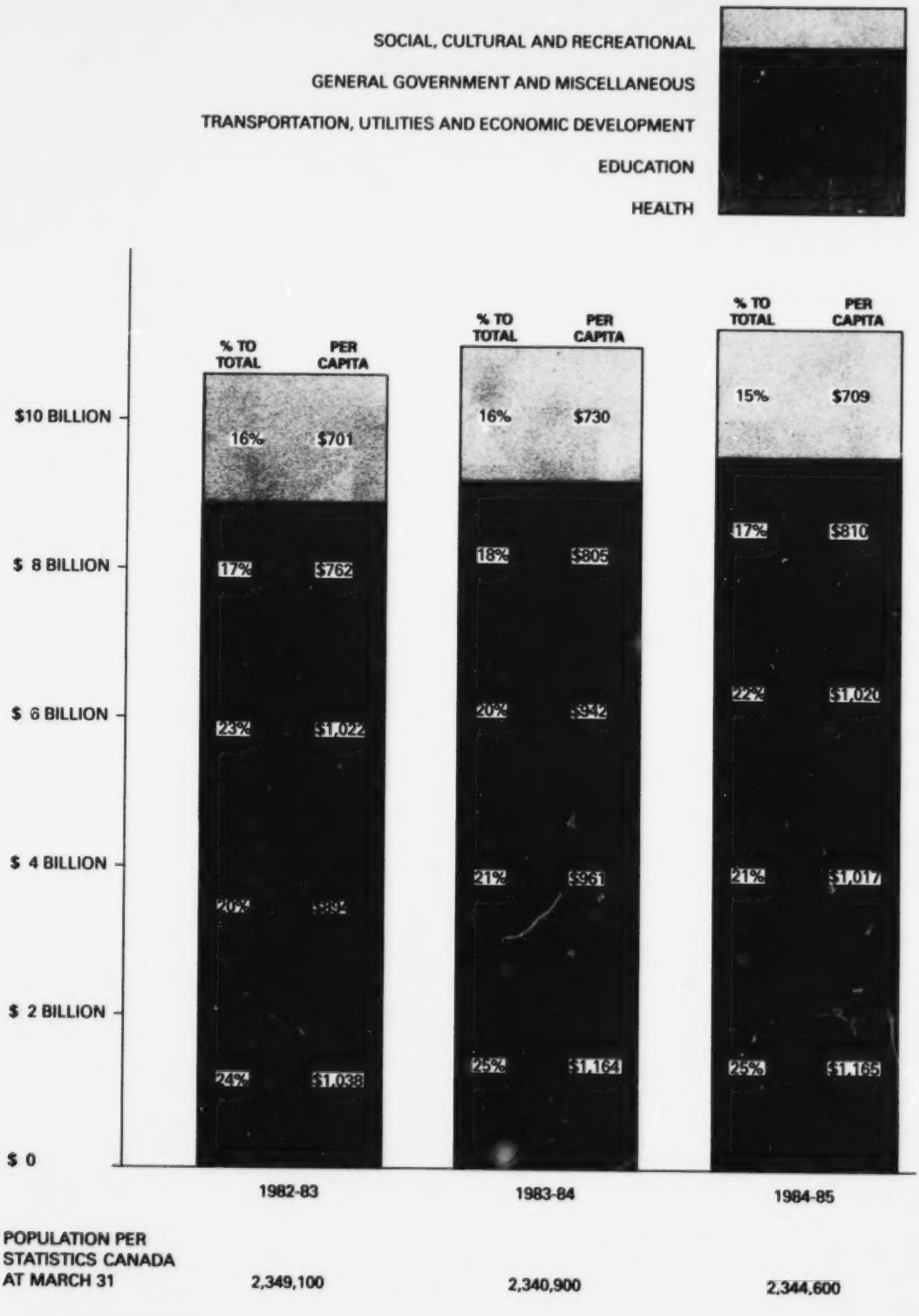
In preparing the charts, some revenues and expenditures have been grouped on a generic basis rather than the basis used in the public accounts. For example, in the charts freehold mineral tax is included in non-renewable resource revenue, whereas in the public accounts it is included in tax revenue. Non-renewable resource revenue (net) in the charts is the revenue after deducting from gross non-renewable resource revenue, costs under the various incentive programs that can be said to relate to the generation of that revenue, viz. royalty tax credits and rebates, petroleum incentive program grants, well servicing and developmental drilling incentives, and geophysical and exploratory drilling incentives. In the public accounts, royalty tax rebates are reflected as deductions from tax revenue, while some costs under the other incentive programs are reflected as resource conservation and industrial development expenditures.

2.2.14 **The following chart shows consolidated revenue by major groups, the percentage of such revenue to total consolidated revenue, and revenue per capita, for the past three years. (Prior years' figures have been reclassified where necessary to conform to 1984-85 presentation).**



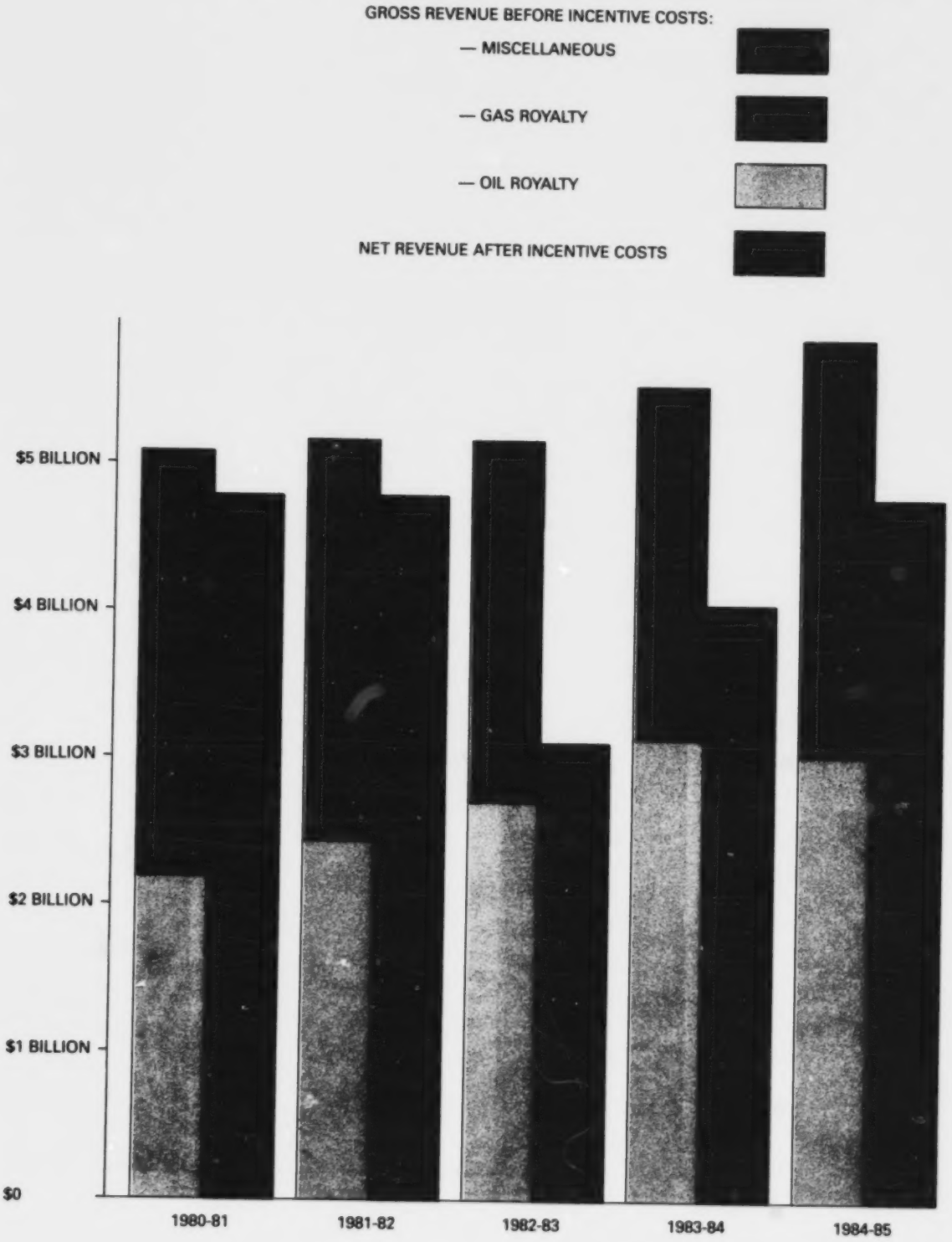
	1982-83	1983-84	1984-85
POPULATION PER STATISTICS CANADA AT MARCH 31	2,349,100	2,340,900	2,344,600

2.2.15 The following chart shows consolidated expenditure by major groups, the percentage of such expenditure to total consolidated expenditure, and expenditure per capita, for the past three years. (Prior years' figures have been reclassified where necessary to conform to 1984-85 presentation)

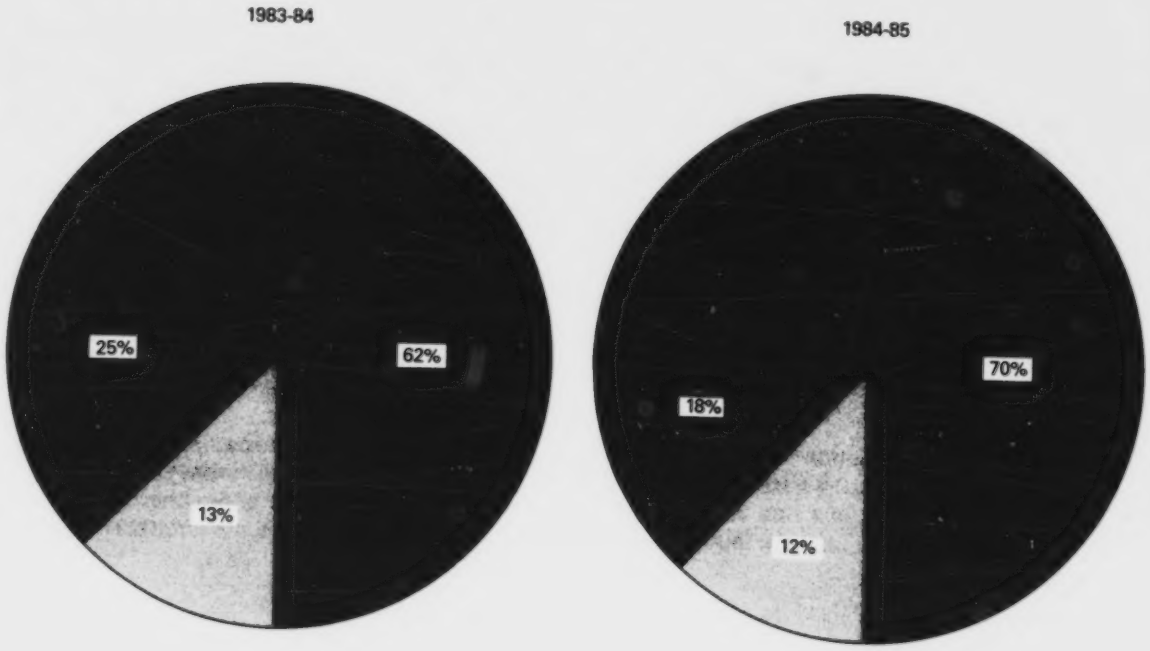


POPULATION PER STATISTICS CANADA AT MARCH 31	2,349,100	2,340,900	2,344,600

2.2.16 The following chart shows non-renewable resource revenue for 1980-81 to 1984-85 before allocations to the Alberta Heritage Savings Trust Fund.



2.2.17 The following chart compares the disposition of non-renewable resource revenue between 1983-84 and 1984-85.



To the Alberta Heritage Savings Trust Fund.

To the General Revenue Fund.

Returned to industry by way of royalty tax credits, petroleum incentive program grants, well servicing and developmental drilling incentive grants, and geophysical and exploratory drilling incentive grants.

NOTE: The disposition of non-renewable resource revenue to the Alberta Heritage Savings Trust Fund is less than the percentages stated in legislation for several reasons. The main one is that the annual transfer from the General Revenue Fund is calculated on non-renewable resource revenues net of certain incentive program costs, principally the grants paid under the Alberta Petroleum Incentives Program. For 1984-85, royalty credits were deducted from non-renewable resource revenue before calculating the transfer to the Alberta Heritage Savings Trust Fund, whereas in previous years they were not.

2.2.18 **Change in Legislation**

An amendment to the Alberta Mortgage and Housing Corporation Act resulted in a change in the way that annual deficits of the Alberta Mortgage and Housing Corporation are funded. Previously, these deficits were assumed by the Province's General Revenue Fund. Under the new legislation, however, the Provincial Treasurer may exclude from the portion of the Corporation's operating deficit to be assumed by the General Revenue Fund, all or any part of an expenditure relating to provisions for declines in asset values. At March 31, 1985, the Corporation retained deficits of $2.5 million on its Corporate Account and $241.2 million on its Mortgage Insurance Fund that had not been assumed by the General Revenue Fund. The change in legislation, however, does not affect the Province's consolidated surplus for the year because the year-end deficits of the Corporate Account and the Mortgage Insurance Fund have been taken into account in its determination.

SECTION 3 — AUDIT OBSERVATIONS AND RECOMMENDATIONS

This section contains observations and recommendations that arose from the work of the Audit Office. It also acquaints readers with the criteria used by the Auditor General when deciding which observations and recommendations should be included in his annual reports, and also, how observations and recommendations are dealt with prior to their publication in annual reports.

3.1 REPORTING CRITERIA

3.1.1 When selecting observations and recommendations for inclusion in his annual reports to the Legislative Assembly, the Auditor General exercises judgement as permitted by two sections of the Auditor General Act. Section 25 does not require annual reports to include matters which, in the opinion of the Auditor General, are immaterial or insignificant, and section 19(5) allows the Auditor General to refrain from reporting deficiencies in systems and procedures otherwise subject to report under section 19(2)(d) and (e) of the Act when such deficiencies, in his opinion, have been or are being rectified. These discretionary reporting powers allow the Auditor General's annual reports to concentrate on the more important reportable matters.

When exercising these discretionary powers, the Auditor General considers the circumstances surrounding each potentially reportable system deficiency. Assurances by management that corrective action has been, or is being, taken to eliminate the observed deficiency will affect, though not determine, the decision whether or not to include the matter in the annual report.

Notwithstanding the above, it should not be concluded that management has not begun to take steps, or is unwilling to take steps, to rectify system deficiencies included in this report. Where observed deficiencies are sufficiently prevalent and/or significant, they are included herein even though steps are being taken, or have been taken, to rectify them.

3.1.2 The observations and recommendations in this report arose from only a few of the audits performed by the Audit Office and its agents. Most annual audit findings are either relatively routine in nature and/or are addressed by management without delay. The Auditor General believes that bringing such findings to the attention of the Legislative Assembly would serve no useful purpose.

3.1.3 The Auditor General believes that by exercising his discretionary reporting powers in the manner outlined above he can, in most cases, influence management to correct system deficiencies promptly without needing to bring them to the attention of the Legislative Assembly. A further advantage is that his annual report is not cluttered with observations on system deficiencies, many of which are rectified before the report is tabled.

Recommendations

3.1.4 As in previous years, the Auditor General's formal recommendations are consecutively numbered. In addition, a complete tabulation of all recommendations is included in subsection 3.6 of this report.

This report also continues the practice of bringing forward from previous annual reports recommendations that remain unimplemented. So that readers can determine how long a recommendation has remained unimplemented, the fiscal year of the annual report in which the recommendation first appeared is noted in parentheses above and to the right of the repeated recommendation. Recommendations are similarly dated in circumstances where, although the wording has changed, the main thrust of the recommendation remains the same.

In a few instances, the Government has rejected or has deferred a decision on recommendations contained in prior years' annual reports. These recommendations, together with a brief explanation for their status, are listed in subsection 3.7 of this report entitled RECOMMENDATIONS IN PREVIOUS ANNUAL REPORTS THAT WERE REJECTED OR ARE NOT COMPLETELY RESOLVED.

3.1.5 The Auditor General's 1983-84 annual report was laid before the Legislative Assembly in March 1985. Many of the recommendations contained therein required discussion and decisions by management, while others called for legislative changes and/or systems development and implementation, before the problems that gave rise to the recommendations could be eliminated. For these reasons, not all matters previously reported could be dealt with before publication of this report.

In December 1985, the Provincial Treasurer issued a report addressed to the Select Standing Committee on Public Accounts (reproduced in Appendix I of this report) which contains responses to each of the 30 recommendations in the Auditor General's report for the 1983-84 fiscal year. Many of those responses are quoted or referred to throughout this report.

Communication of Audit Observations

3.1.6 Audit observations and recommendations that appear in the Auditor General's annual reports undergo a rigorous process aimed at providing all concerned with opportunities to challenge or provide input to all that is reported.

At the conclusion of all audits, audit exit conferences are held to discuss matters and concerns that arose during the audit. Matters discussed include the form and content of the financial statements, accounting policies employed, valuation provisions and allowances, as well as observed instances of non-compliance with legislation, systems deficiencies, and related recommendations. Exit conferences are attended by Audit Office representatives and senior financial and other management officials of the auditee.

The main purposes of these meetings are to ensure that management is fully apprised of matters arising from the audit, to discuss proposed recommendations for corrective action and to provide an opportunity for comments by management before the audited financial statements and the management letter are issued. Minutes of matters discussed are prepared by the Audit Office and are circulated to those who attended the meetings, thereby minimizing the risk of misunderstandings in connection with observations raised and action promised.

Audit observations and recommendations judged by the Auditor General to be of concern to senior management, together with matters that were not resolved or satisfactorily dealt with at the exit conference, are then incorporated into a management letter to the deputy minister or senior executive officer responsible for the audit entity. Copies of most management letters are forwarded to the appropriate minister and to the Secretary to the Treasury Board, except for those addressed to Provincial agencies exempt under section 2(5) of the Financial Administration Act.

Subsequently, the Auditor General decides which observations and recommendations are important enough to be reported to the Legislative Assembly. In the course of preparation, draft copies of the annual report are reviewed by the Government's Audit Committee, of which the Provincial Treasurer is a member. Finally, before the annual report is printed, all ministers and deputy ministers or chief executive officers are informed of observations contained in the report that relate to areas for which they are responsible.

General

3.1.7 In the remainder of this section of the report, occasional references are made to the Treasury Department's Manual of Financial Administration. This manual was issued by the Office of the Controller pursuant to section 13 of the Financial Administration Act, under which authority is delegated by the Provincial Treasurer to prescribe administrative procedures respecting financial records and accounting systems and the receipt and disbursement of public money. The Manual of Financial Administration is designed for use by senior administrators and financial officers in exercising an overall system of internal control for their departments.

SECTION 3.2 — RESERVATIONS IN AUDIT REPORTS ON FINANCIAL STATEMENTS

Reported pursuant to subsection 19(2) of the Auditor General Act

3.2.1 The Auditor General expressed reservations in his opinions on the financial statements of eighteen entities audited for the 1984-85 fiscal year of the Crown.

3.2.2 Nine reservations of opinion were because the financial statements of:

— Alberta Environmental Research Trust,

— Alberta Sport Council,

— Banff Television Foundation,

— Foothills Hospital Foundation,

— Grande Prairie Regional College Foundation,

— Olds College Foundation,

— The Alberta Historical Resources Foundation,

— The Canadian Association of Youth Orchestras, and

— The Recreation, Parks and Wildlife Foundation

include revenue derived from donations. Revenue of this nature cannot be audited for completeness in accordance with generally accepted auditing standards.

These reservations of opinion do not reflect adversely on the records or the financial statements of the above entities. Rather, they are a product of the nature of donation revenue. For most types of revenue, an auditor can calculate or anticipate the completeness of recorded revenue by reference to the auditee's production or sales records, or by independent verification.

Where donations are received from the public, however, the auditor can do no more than examine the amounts that are recorded as received. He cannot verify that all donations received have been recorded.

In these circumstances, generally accepted auditing standards require the auditor to express a reservation of opinion on the financial statements by drawing attention to the nature of the revenue and describing the limited audit work that was possible.

3.2.3 Two reservations of opinion were because the financial statements of:

— Alberta Hospital Edmonton, and

— Alberta Hospital Ponoka

reflect assets and liabilities considered to be transferred to the respective entities, but where the transfer has not been effected in the manner required by legislation.

Before October 1, 1982, these hospitals operated and reported annually as institutions within the Department of Social Services and Community Health. Since that date, however, they have been administered independently by Mental Health Hospital Boards under the authority of Part 5 of the Mental Health Act. The Act requires these hospitals to publish annual reports containing audited financial statements.

The legislation that transferred administrative authority to the Hospital Boards also provided for certain assets and liabilities to be transferred to them by Order of the Lieutenant Governor in Council.

The financial statements of the two hospitals for the year ended March 31, 1985, were prepared on the assumption that the assets and liabilities on the balance sheets at October 1, 1982 were transferred to the hospitals effective that date. However, until specific Orders in Council are passed, the assets and liabilities will not legally belong to the hospitals.

For the above reasons, the Auditor General was unable to satisfy himself concerning the ownership and value of certain assets and liabilities reported as belonging to the two hospitals and accordingly expressed reservations of opinion on their financial statements.

Furthermore, the Auditor General issued a second reservation of opinion on the financial statements of Alberta Hospital Edmonton because interest revenue earned on non-capital funds was not recorded in the Hospital's statement of revenue and expenditure. This matter is described more fully in subsection 3.5.2 of this report.

3.2.4 Three reservations of opinion were because the financial statements of:

— Lethbridge Community College,

— Medicine Hat College, and

— Mount Royal College

show transfers to restricted funds in an inappropriate manner, or include capital assets at overstated values, or as is the case of Medicine Hat College, a combination of both.

The statements of revenue, expenditure and operating surplus of Lethbridge Community College and Medicine Hat College for the year ended June 30, 1984 report transfers to restricted funds in the amounts of $550,000 and $958,979 respectively, in determining annual surpluses. As explained more fully in subsection 3.5.8 of this report, the Auditor General expressed reservations of opinion on the financial statements of these two colleges because this form of financial disclosure is considered to be an inappropriate departure from generally accepted accounting principles.

Furthermore, the capital assets of Medicine Hat College and Mount Royal College are recorded on their balance sheets at original cost or fair market value, less the proceeds obtained from disposals. Normal accounting conventions for capital assets require the capitalized amounts for assets disposed of, or considered of no further value or use, to be removed from the reported figures. Since the Auditor General considers that the manner in which the two colleges report capital assets is inappropriate, he expressed reservations of opinion in his reports on their financial statements for the year ended June 30, 1984.

3.2.5 One reservation of opinion was because Fairview College had not included in its financial statements for the year ended June 30, 1984, the value of certain assets transferred from the Province of Alberta to the College when it received public college status in April 1978.

3.2.6 One reservation of opinion was because the Auditor General was unable to satisfy himself concerning the ownership of certain assets included in the financial statements of the Alberta Research Council. This matter is discussed more fully in subsection 3.4.2 of this report.

3.2.7 One reservation of opinion was because the financial statements of the Foothills Provincial General Hospital for the year ended March 31, 1985 include accounts receivable from the Department of Hospitals and Medical Care that are in dispute. This matter is dealt with more fully in subsection 3.5.6 of this report.

3.2.8 One reservation of opinion was because the financial statements of the Sulphur Development Institute of Canada (SUDIC) include revenue derived from membership fees and royalty revenue that cannot be audited for completeness in accordance with generally accepted auditing standards.

This reservation of opinion does not reflect adversely on the records or the financial statements of the Institute. Rather, it is a product of the nature of these types of revenue. The difficulties inherent in auditing these revenues are similar to those for donation revenue outlined in subsection 3.2.2 above.

3.2.9 In all other cases, the Auditor General reported without reservation that the financial statements examined present fairly the financial position of the entity at March 31, 1985 (or such other accounting period ended within the year ended March 31, 1985), and the results of its operations for the periods covered by the statements, in accordance with generally accepted accounting principles or other appropriate disclosed basis of accounting.

SECTION 3.3 — NON-COMPLIANCE WITH LEGISLATIVE AUTHORITIES

Reported pursuant to subsections 19(2)(a) and (b) of the Auditor General Act

As explained more fully in subsection 4.3 of this report, all transactions and activities examined in the course of auditing departments, funds and Provincial agencies in accordance with generally accepted auditing standards are also examined to determine whether they comply with the significant financial and administrative authorities that govern them. These authorities include primary authorities such as statutes, and subordinate authorities emanating therefrom such as regulations, orders-in-council, contracts and conditional grant agreements. All subordinate authorities are also examined to determine whether they have been properly issued in accordance with the provisions of a relevant primary or more senior subordinate authority.

In the opinion of the Auditor General, except for the instances of non- compliance described in this and other subsections of the report, the sample of transactions and activities examined in the course of auditing departments, funds and Provincial agencies complied, in all significant respects, with relevant and significant financial and administrative authorities.

The instances of non-compliance reported herein are only those that were observed and which the Auditor General believes are significant enough to be brought to the attention of the Legislative Assembly.

3.3.1 ALBERTA PETROLEUM MARKETING COMMISSION

The Alberta Petroleum Marketing Commission (APMC) has not complied, in two respects, with the terms of the Energy Pricing and Taxation agreement entered into between the Governments of Alberta and Canada. In addition, the policies and systems of APMC, and the documentation of those policies and procedures, need re-evaluation and improvement.

Non-Compliance with Agreement

The responsibilities of APMC include being the selling agent for both the Crown royalty share and lessees' shares of petroleum and pentanes plus from Crown leases in Alberta. In this agency capacity, APMC received certain responsibilities under a memorandum of agreement dated September 1981 between the Governments of Alberta and Canada. This memorandum of agreement established higher prices for "new" oil effective January 1, 1982, and for "new" pentanes plus and bitumen effective April 1, 1982. Subsequent amendments to the memorandum of agreement established a special old oil price for certain categories of oil and pentanes plus which became eligible for new oil prices effective July 1, 1983.

Pursuant to the memorandum of agreement, as amended, APMC determines and pays, and collects from the Government of Canada, the new and special oil and pentanes plus price supplements. This is achieved by APMC paying for the products at market prices or, where applicable, at the "new" oil or pentanes plus prices, and selling all the products at market prices. The differential, representing the "new" price supplement paid, is collected by APMC from the Government of Canada.

Audits of receipts and payments relating to the New Oil Reference Price Program (NORP) and the Special Old Oil Program (SOOP) for the period to December 31, 1983 revealed that certain prices used had not been calculated as required by the terms of the memorandum of agreement. For example, the agreement prescribes how the overall actual average field price of conventional old oil and the prices published in the Alberta Price Bulletin shall be calculated. However, APMC did not calculate the average field price as prescribed by the agreement in that oil qualifying under NORP was included in the calculation. Furthermore, APMC based the eligibility of special old oil qualifying for NORP prices on oil delivered, instead of on oil recovered as required by the memorandum of agreement.

For the two reasons outlined above, the Auditor General qualified his report to the Minister of Energy and Natural Resources on the schedule of NORP and SOOP receipts and payments for the period ended December 31, 1983. When these matters were brought to the attention of the Department of Energy, Mines and Resources Canada, that Department responded by stating that while the irregularity in calculating the average old oil field price was regrettable, nevertheless the matter should not now be readdressed and should be considered closed. Moreover, agreement has been reached between the Governments of Alberta and Canada to allow the eligibility of special old oil qualifying for NORP prices to be based on oil delivered. In these circumstances, the Auditor General did not qualify his report on the schedule of NORP and SOOP receipts and payments for the year ended December 31, 1984.

This matter has been reported herein to satisfy the reporting requirements of subsections 19(2)(a) and (b) of the Auditor General Act. However, since the Governments of Alberta and Canada have agreed to accept all that has occurred, a recommendation on the matter in this report is considered unnecessary.

Policies and Systems

In addition to its responsibilities relating to petroleum and pentanes plus, APMC is also responsible for the Natural Gas Pricing Agreement Act Fund which includes determining the Alberta cost of service, determining and paying price adjustments to producers with respect to eligible gas, and determining and paying various incentive grants.

The annual audit for the year ended December 31, 1984 revealed that APMC lacks, in some areas, properly documented policies and systems. These would provide a useful reference for staff, a valuable training aid for new and inexperienced staff, and could form a basis from which policy changes and systems enhancements could be developed, as well as assist in the uniform application of policies and the consistent treatment of transactions and activities.

During the past year several changes have occurred in the operations of APMC and it may be opportune, therefore, for APMC Management to undertake a complete review of policies and systems. The review should be designed to ensure that obsolete policies and procedures are identified, and that continuing and newly developed policies and systems are documented to appropriate standards.

Recommendation: (No.1)

It is recommended that the Alberta Petroleum Marketing Commission review its policies and systems to evaluate their appropriateness and effectiveness, and ensure that they are adequately documented.

3.3.2 CAPITAL FUNDING FOR HOSPITALS

In his 1983-84 annual report (subsection 2.3.1), the Auditor General described how the Foothills Provincial General Hospital and the Provincial Cancer Hospitals (Alberta Cancer Board) both issued falsified financial reports to obtain capital funding before such funding was due under the prevailing legislative authorities. He also described how the Department of Hospitals and Medical Care had relied on this information for accounting and financial reporting purposes.

The Auditor General recommended that the Department and the two hospitals comply more fully in future with legislative authorities and approved accounting policies to ensure that goods and services are recorded as expenditures in the fiscal years in which they are received and that funding is claimed only in compliance with the provisions of relevant authorities.

The 1984-85 annual audits of the two hospitals revealed no further instances of falsified reporting. Accordingly, the Auditor General's recommendation is not repeated in this report.

The Auditor General also recommended in his 1983-84 annual report that the Department of Hospitals and Medical Care establish consultative arrangements — including liaison with the Treasury Department — to help hospitals resolve problems in connection with funding commitments that lapse at fiscal year ends.

The 1984-85 annual audit of the Department of Hospitals and Medical Care revealed that the Department has initiated discussions with the Treasury Department. However, arrangements to resolve the problems in connection with funding commitments that lapse at fiscal year-ends have not yet been adopted. Accordingly, the recommendation is repeated.

Recommendation: (No. 2) *(1983-84: No. 2)*

It is recommended that the Department of Hospitals and Medical Care establish consultative arrangements — including liaison with the Treasury Department — to help hospitals resolve problems in connection with funding commitments that lapse at fiscal year-ends.

3.3.3 DEPARTMENT OF ENERGY AND NATURAL RESOURCES

In his 1983-84 annual report (subsection 2.3.4), the Auditor General described how the Department of Energy and Natural Resources had underassessed freehold mineral rights tax due to the Province for the 1983-84 fiscal year by approximately $700,000. Also, he recommended that the Department modify its Mineral Tax System to ensure that tax is calculated and billed annually in accordance with the provisions of Alberta Regulation 12/84.

The 1984-85 annual audit revealed that the Department had recalculated tax underbilled for 1983-84 and issued supplementary 1983-84 tax adjustments with the 1984-85 tax bills. It has also modified the mineral tax system to prevent the problem recurring. Accordingly, the Auditor General's recommendation is not repeated in this report.

3.3.4 DEPARTMENT OF HOSPITALS AND MEDICAL CARE

In his 1983-84 annual report (subsection 2.3.5), the Auditor General described how the Department of Hospitals and Medical Care attempted to charge the cost of acquiring the Lethbridge St. Michael's Hospital against funds appropriated by the Legislative Assembly for 1983-84, even though the Hospital was not acquired by the Province until later. The Auditor General recommended that the Department take more care in future to ensure that expenditures are charged against funds that are appropriated for the years to which the expenditures relate.

The Department's 1984-85 annual audit revealed no further instances of expenditures being charged to incorrect fiscal years. Accordingly, the Auditor General's recommendation is not repeated in this report.

3.3.5 DEPARTMENT OF RECREATION AND PARKS

Legislatively imposed expenditure limits applicable to grants for the development of major cultural and recreational facilities disbursed by the Department of Recreation and Parks were not amended to reflect a change in policy.

The Department disbursed grants to municipalities, community organizations and educational authorities to promote the development of major cultural and recreational facilities. The grants were paid pursuant to Alberta Regulation 303/76, which stated in section 4(4):

"The amount of the grants payable by the Minister shall not exceed:

(a) the aggregate amount of $200,000,000 in respect of the grant years 1975 to 1984 inclusive;

(b) the amount of $100 for each resident of Alberta in respect of grant years 1975 to 1984 inclusive."

During the Department's 1984-85 annual audit, it was observed that over the ten year period grants disbursed totalled almost $240 million, exceeding by approximately $40 million the limit imposed by section 4(4)(a) of the Regulation.

It should be noted that the grant expenditures did not exceed the expenditure limits imposed by the annual Appropriation Acts which made money available to the Department; it was the expenditure limit imposed by the Regulation which provided legislative authority for such grant expenditures that was exceeded. Furthermore, the Department had monitored the accumulation of grant expenditures and in 1983 sought policy direction from the Government's Priorities, Finance and Co-ordination Committee of Cabinet as to what action should be taken when the $200 million limit was reached.

The Committee approved a policy whereby grant expenditures would be subject only to the limit imposed by subsection (b) of the Regulation. Based on this, the Department continued to disburse grants with an overall expenditure limit of $100 for each resident of Alberta. However, the Department failed to seek and obtain an amendment to the Regulation with the result that the $200 million limit imposed by subsection 4(4)(a) remained in effect until the whole Regulation was repealed when the grant program ended.

Recommendation: (No. 3)

It is recommended that, in future, the Department of Recreation and Parks ensure that when expenditure limits or other conditions applicable to grant programs are changed in accordance with policy direction received, the relevant legislative authorities are amended accordingly.

3.3.6 LOTTERY OPERATIONS

The manner in which the proceeds of the major lotteries currently operating in Alberta are dealt with, the payments of administration costs and prize money therefrom, and the distribution of net profits earned from those lotteries, appear to lack appropriate legislative authority.

In his 1983-84 annual report (subsection 2.3.10), the Auditor General commented on the manner in which the proceeds of the major lotteries currently operating in Alberta are dealt with. These are the Provincial, Superloto, Lotto 6/49, Western Express and Lotto West lotteries. The terms of a licence issued pursuant to the Interprovincial Lottery Act purports to authorize the Western Canada Lottery Foundation, a Winnipeg-based organization, to act on behalf of the Province as general administrator of the above lotteries. As general administrator, its activities include receiving the proceeds of ticket sales, paying administration costs and prize money, distributing net profits, and investing any undistributed funds.

A legal opinion obtained by the Auditor General indicates that the proceeds from these lotteries fall within the definition of "public money" that should be paid into the Province's General Revenue Fund. The Interprovincial Lottery Act makes no "special disposition" that would allow the proceeds to remain outside the General Revenue Fund, nor does it empower the licence to do so.

The Auditor General recommended that lottery proceeds be paid into the General Revenue Fund as required by the prevailing legislation, and that expenses or distributions from the proceeds be charged to an appropriation of the Legislature. He noted, however, that if the Government would prefer that lottery proceeds not be paid into the General Revenue Fund, then legislation should be enacted to create a special statutory fund or a Provincial agency through which the receipt and disbursement of lottery proceeds would pass. Alternatively, the Interprovincial Lottery Act could be revised to provide that the lottery proceeds be "specially disposed of" so as to constitute an exception to the requirement that they be paid into the General Revenue Fund. The Auditor General also recommended that, arising out of the legal opinion received, a specific reference to the Criminal Code of Canada be inserted in the Interprovincial Lottery Act to place the operation of provincial and interprovincial lotteries on a more secure basis.

In response to the Auditor General's recommendations, the Government stated that it will consider amending the Interprovincial Lottery Act to establish a regulated fund into which lottery proceeds will be deposited and from which lottery expenses and grants will be paid. Such a fund would be administered by the Minister responsible for lotteries or an agent appointed by the Minister. Consideration will also be given to the need for a reference in the Interprovincial Lottery Act to section 190 of the Criminal Code of Canada.

Pending a resolution of this matter, the Auditor General's recommendations are repeated.

Recommendation: (No. 4) *(1983-84: No. 6)*

It is recommended that:

(a) in order to comply with the prevailing legislation, all proceeds collected from lottery operations be deposited to the General Revenue Fund; and that all payments of costs of lottery operations and all payments to be regarded as distributions of the net profits from those operations be made pursuant to the authority of appropriations of the legislature, or alternatively,

(b) that the Interprovincial Lottery Act be revised to authorize the collecting, handling and distributing of lottery proceeds through a statutory fund or Provincial agency or by some other method that would constitute an exception within section 19(1)(b) of the Financial Administration Act.

It is further recommended that the Interprovincial Lottery Act be revised to indicate that this statute is based on the authority of section 190 of the Criminal Code of Canada.

It should be noted that at March 31, 1985, undistributed lottery proceeds held by the Western Canada Lottery Foundation amounted to over $30 million, of which only $6.8 million was committed to beneficiaries as an entitlement under the licence. The uncommitted funds of $23.3 million should be transferred immediately to the General Revenue Fund unless the proposed revisions to the Act are to encompass monies held by the Western Canada Lottery Foundation in addition to future lottery proceeds.

3.3.7 NON-COMPLIANCE WITH THE PUBLIC WORKS ACT

In his 1982-83 and 1983-84 annual reports (1983-84: subsection 2.3.12), the Auditor General commented on situations where various Government departments had contravened section 12(1) of the Public Works Act by allowing construction work to begin and making progress payments before formal contracts were executed.

No further instances of non-compliance with the Public Works Act were observed during 1984-85 departmental audits. Accordingly, the Auditor General's recommendation that departments ensure compliance with the Act when executing public works contracts is not repeated in this report.

3.3.8 NORTHERN ALBERTA INSTITUTE OF TECHNOLOGY

In his 1983-84 annual report (subsection 2.3.13), the Auditor General commented on a financial arrangement entered into by the Northern Alberta Institute of Technology that resulted, and would have continued to result, in the expenditure of public money for which no tangible benefit was or would be received. He recommended that the Institute take steps to curtail the ongoing loss of public money.

The Institute had financed the purchase of the Patricia Campus by a bank loan secured by an equivalent cash deposit. The loan and deposit were to reduce in unison by fixed equal monthly instalments over an agreed period. The interest payable on the loan was greater than the interest receivable on the deposit such that the net cost of the financial arrangement over the agreed period, given no prepayments or deferrals, would have amounted to approximately $78,000. In effect, the Patricia Campus was purchased outright for cash, yet the Institute was bearing an ongoing cost in addition to the cost of the purchase.

In a report to the Select Standing Committee on Public Accounts in December 1985, the Provincial Treasurer responded to the Auditor General's recommendation by stating that the Institute had arranged to discharge the loan and thus eliminate the additional charges. The loan and the deposit were retired on July 2, 1985 at which date the cumulative additional charges amounted to $20,573. In view of the action taken by the Institute, the Auditor General's recommendation is not repeated in this report.

The Auditor General's 1983-84 annual report also commented on the Institute's failure to obtain the approval of the Lieutenant Governor in Council as required by section 22 of the Technical Institutes Act prior to arranging the bank loan. While acknowledging that some uncertainty existed as to the application of section 22 to this particular loan, the Auditor General recommended that consideration be given to seeking legislative amendments to remove any uncertainty in future applications.

Responding to the Auditor General's comments on the failure to obtain the approval of the Lieutenant Governor in Council, the Provincial Treasurer stated in his December 1985 report to the Select Standing Committee on Public Accounts that post-secondary institutions have been reminded of the restrictions on their power to borrow money. Accordingly, the Auditor General's recommendation is not repeated in this report.

During the audit for the year ended June 30, 1985, it was discovered that serious expenditure irregularities appear to have occurred at the Institute involving a senior official and amounts probably not exceeding $25,000. However, as the investigation into this matter is incomplete, the Auditor General must withhold further comment at this time. A full report on this matter will be included in the 1985-86 report to the Legislative Assembly.

3.3.9 TEACHERS' RETIREMENT FUND

Honoraria paid to a member of the Board of Administrators of the Teachers' Retirement Fund (TRF Board) were not in compliance with the Teachers' Retirement Fund Act. Also, a resolution of the TRF Board with respect to the retention of directors' fees by members of the TRF Board may have led to a contravention of the Act.

The TRF Board comprises six members, all appointed by the Lieutenant Governor in Council. Three of the members are nominees of the Alberta Teachers' Association, while the other three hold positions in the Alberta Public Service and are, therefore, subject to the Public Service's Code of Conduct and Ethics.

Receipt of remuneration by members of the TRF Board is dealt with in section 5 of the Teachers' Retirement Fund Act. This section states that "members of the Board shall serve without remuneration, but they shall be paid out of the Fund their proper expenses, including travelling expenses incurred in the course of their duties."

Honoraria

One of the members of the TRF Board has received small amounts of honoraria from the Teachers' Retirement Fund (TRF) for serving on the Fund's Investment Committee. It is considered by the Auditor General that this action is contrary to section 5 of the Act. An independent legal opinion was obtained by the Auditor General on the applicability of section 5 to the aforementioned circumstances which has confirmed that payment of honoraria from the Fund to members of the TRF Board for serving on the Fund's Investment Committee is prohibited by section 5.

Recommendation: (No. 5)

It is recommended that honoraria not be paid to members of the TRF Board out of the Teachers' Retirement Fund and that all honoraria that have been received by a member for service on the Fund's Investment Committee be repaid to the Fund.

Directors' Fees

The TRF Board has exercised its right as shareholder of certain corporations to nominate individuals to the boards of directors of these corporations. In their capacity as nominees of the TRF Board, two members of the TRF Board, one of whom is also a member of the Alberta Public Service, have received and retained directors' fees paid to them by the corporations. The retention of these fees was approved by a resolution of the TRF Board in June, 1981 which states that "directors' fees are to be retained by the persons appointed to be directors."

In this situation, where the payment of directors' fees is made to members of the TRF Board from a source originating outside of the Fund, the applicability of section 5 is less clear than in the case of the honoraria. In an effort to clarify the matter, the Auditor General also obtained an independent legal opinion on the applicability of section 5 to the retention of directors' fees by members of the TRF Board.

With respect to directors' fees received from outside sources, the legal opinion stated that section 5 can be interpreted in two ways. It can be interpreted as prohibiting a member of the TRF Board from accepting remuneration (other than expenses) from any source, for duties arising as a result of membership on the TRF Board. Alternatively, it can be interpreted as prohibiting a member of the TRF Board from accepting remuneration only if the source of the remuneration is the Fund itself. After an extensive review of legislation and case law, it was concluded in the opinion that a fiduciary relationship exists between members of the TRF Board and the TRF Board itself, and as a result, a member of the TRF Board is under a duty to account to the Fund for directors' fees received. It also indicated that the TRF Board cannot by resolution condone the retention of directors' fees by its members because the members themselves are co-fiduciaries and, therefore, members of the TRF Board are not entitled to retain directors' fees and must account to the Fund for fees received.

The legal opinion also acknowledged that, depending on the interpretation of section 5 and a different view of case law, an argument could be made for supporting the payment of directors' fees from outside sources to members of the TRF Board.

Another matter which must be considered is the applicability of section 3.3 of the Code of Conduct and Ethics for the Public Service of Alberta to the members of the TRF Board who are also members of the Alberta Public Service. This section states that "employees shall not accept monetary or other payment in addition to normal salary or expenses for duties which they perform in the course of their public service employment." While this Code is not law, it provides public employees with guidelines which, if not followed, could subject them to disciplinary action under section 25 of the Public Service Act.

It is understood that one member of the TRF Board, who is also a member of the Alberta Public Service, did not accept directors' fees after being informed by his employer that the acceptance of such remuneration would be in conflict with the Code of Conduct and Ethics.

Under the circumstances, it would appear that the ultimate solution is the amendment of section 5 of the Act to remove the ambiguity as to whether or not members of the TRF Board can receive directors' fees from outside sources. The Auditor General feels that the TRF Board should refer this matter to the Treasury Board for policy direction prior to seeking an amendment and, accordingly, the TRF Board should request the issue of a directive on the matter of directors' fees paid to members of the board of a Provincial agency which, as a result of being a shareholder, has the right to nominate individuals to boards of corporations. Section 5(1) of the Financial Administration Act gives the Treasury Board the authority to formulate general management policies relating to the business and affairs of the Crown and Provincial agencies and a directive would be issued under authority of section 7 of the Financial Administration Act. Once guidance has been received from the Treasury Board, the TRF Board can seek the appropriate amendment to section 5 of the Act.

Although the amounts of directors' fees received by members of the TRF Board were not significant, an important question of principle should be resolved. That is, should a Provincial agency be able to do something in an indirect way, that it would appear to be forbidden from doing directly by legislation. As the concern raised with respect to directors' fees relating to the Teachers' Retirement Fund may also be applicable to other Provincial agencies, the Treasury Board policy directive would provide guidance with respect to directors' fees for all affected organizations.

Recommendation: (No. 6)
It is recommended that:

- *The Board of Administrators of the Teachers' Retirement Fund request the Treasury Board to formulate a general management policy and issue a directive with respect to directors' fees received by board members of a Provincial agency from corporations in which the Provincial agency is a shareholder.*
- *Once a policy directive has been issued by the Treasury Board which deals with directors' fees, the Board of Administrators of the Teachers' Retirement Fund should seek amendments to the Teacher's Retirement Fund Act which are in compliance with the policy established by the Treasury Board, and which will eliminate the ambiguity with respect to the nature of remuneration that members of the Board are allowed to receive from sources outside the Teachers' Retirement Fund. If the directive and amendments to the Teachers' Retirement Fund Act do not allow the retention of directors' fees by Members of the Board, directors' fees already received by Board Members should be paid to the Teachers' Retirement Fund unless otherwise directed by the Treasury Board.*

SECTION 3.4 — SYSTEMS WEAKNESSES AND DEFICIENCIES, AND INADEQUATELY SAFEGUARDED ASSETS

Reported pursuant to subsections 19(2)(c), (d) and (e) of the Auditor General Act

Although under generally accepted auditing standards, an audit of financial statements need not include examining internal control systems beyond the examination necessary to determine the nature, extent and timing of other auditing procedures, the audit scope relating to internal control systems for most departments, funds and Provincial agencies is extended beyond that which is necessary to satisfy generally accepted auditing standards. Since the Auditor General Act allows the Auditor General considerable discretion when reporting on systems, the weaknesses and deficiencies reported hereunder are only those that were observed and which the Auditor General considers are significant and, therefore, should be brought to the attention of the Legislative Assembly.

3.4.1 ALBERTA HOSPITAL PONOKA

In his 1983-84 annual report (subsection 2.4.1), the Auditor General commented on numerous deficiencies in the Alberta Hospital Ponoka's accounting and reporting systems. Problems and delays had occurred in implementing proper systems after the Hospital became an autonomous reporting entity in 1982, and accordingly, the Auditor General recommended the immediate development and implementation of appropriate accounting controls and financial reporting systems.

The Hospital's annual audit for 1984-85 revealed that remedial action was instigated and that most of the previously reported problems and deficiencies have now been satisfactorily resolved.

Following completion of the audit, Hospital officials discovered an apparent irregularity in the conduct of a senior Hospital employee. This matter was presented to the Board and, subsequent to further investigation, the police were called and the Audit Office was also informed. The amount in question is less than $15,000. As this matter is still pending, the Auditor General must withhold further comment at this time. A full report will be included in the 1985-86 report to the Legislative Assembly.

3.4.2 ALBERTA RESEARCH COUNCIL

Deficiencies continue to exist in the financial systems and accounting records of the Alberta Research Council.

In his last four annual reports (1983-84: subsection 2.4.2), the Auditor General has described numerous deficiencies in the financial systems and accounting records of the Alberta Research Council, as well as the progress made in eliminating them. These deficiencies were first reported to the Legislative Assembly following the 1979-80 annual audit.

The 1984-85 audit revealed that although further progress had been made, three of the previously reported concerns remained unresolved.

Fixed Assets

Uncertainties continued to exist regarding the ownership of some of the fixed assets that appear on the Council's balance sheet.

The contracts under which some research projects are carried out provide for the Research Council to receive title to fixed assets acquired for use in the projects. Under certain contracts, title passes to the Research Council automatically at the completion of the project, while under others, it is at the discretion of the project's sponsor. The Research Council's records do not identify which of the fixed assets on its balance sheet belong to the Research Council, and which still belong to project sponsors.

For this reason, the Auditor General issued a reservation of opinion on the Research Council's March 31, 1985 financial statements. In his report thereon, he stated that since the Research Council has not identified those fixed assets to which it may not have title, he was unable to determine whether any adjustment may be required to the balance sheet to adjust fixed assets and contributed surplus to reflect ownership of the assets. This was the sixth consecutive reservation of opinion on the Research Council's financial statements.

The Research Council believes that it cannot justify the cost of identifying all of its individual assets. Instead, attempts will be made over the next two or three years to obtain title to all fixed assets by renegotiating those contracts that have created uncertainties as to ownership.

Project Contracts

Effective financial control over research projects is often difficult to achieve because the contracts under which they are carried out are sometimes poorly drafted and not specific. In 1981-82, the Research Council established guidelines governing the form and content of research project

contracts. Many contracts entered into before then were difficult to administer effectively, because they were silent on such important matters as the amount of time chargeable to the sponsor, the disposition of assets acquired for the project, the allocation of overhead costs, or the treatment of supplementary or escalated costs.

The 1984-85 audit revealed that problems were still being experienced controlling projects operating under contracts entered into before the 1981-82 guidelines were issued. In addition, similar problems were occurring with more recent projects where, for example, contracts entered into during 1984-85 were silent on the types of costs that can be charged to the projects.

Inventories

Controls relating to the custody and use of materials and supplies inventories continued to be inadequate. This lack of control makes it difficult for the Research Council to monitor project assets and expenses effectively. Management has initiated a review of the situation with a view to establishing appropriate control over inventories.

General

The 1984-85 audit also revealed that some of the previously reported control deficiencies had been eliminated. For example, procedures had been established to ensure that labour and related overhead costs are charged correctly to research projects, and to ensure that the Research Council receives credit for goods returned to suppliers.

In view of the problems that remain, however, the Auditor General's recommendation is repeated.

Recommendation: (No. 7) *(1979-80: No. 45)*

It is recommended that the Alberta Research Council continue with efforts to eliminate the remaining financial control problems in its fixed assets, project contracts and inventories systems.

3.4.3 CENTRAL SALARY PAYROLL SYSTEM

In his 1979-80 annual report to the Legislative Assembly, the Auditor General commented on a variety of inadequacies in the Province's central salary payroll system, and in the information it produced. Of particular concern were deficiencies in the procedures used by departments and other users to produce and verify data input to the system, as well as the incidence of clerical and other errors in that data and its supporting documentation.

Since then, successive annual reports have acknowledged the action taken to eliminate these concerns. In his 1983-84 annual report (subsection 2.3.2), the Auditor General stated that the only matter of continuing concern was a significant number of salary payments still being made without proper evidence of the requisite authority. This constituted non-compliance with both the Treasury Department's Manual of Financial Administration and section 37 of the Financial Administration Act.

Payroll transactions examined during the 1984-85 fiscal year revealed few instances of this nature. In addition, none of the previously reported problems with the central salary payroll system appear to have recurred. Accordingly, financial control in this area is now considered satisfactory and the Auditor General's recommendation is not repeated herein.

3.4.4 DEPARTMENT OF ENERGY AND NATURAL RESOURCES

The Department of Energy and Natural Resources is in the process of implementing a newly developed system to record, monitor and control royalty revenues from natural gas and natural

gas by-products. When fully operational, the new system should obviate the concerns previously expressed by the Auditor General on the adequacy of the system it is replacing. Meanwhile, some of the existing procedures for verifying the accuracy of royalties already received continue to be in arrears.

The Department is responsible for collecting the Province's share of royalties on natural gas and natural gas by-products. Since annual revenues from this source amount to almost two billion dollars, the importance of the system used to administer and control them cannot be overemphasized.

Control deficiencies in the old system were first brought to the attention of the Legislative Assembly in the Auditor General's 1981-82 annual report. In subsequent reports (1983-84: subsection 2.4.3), the Auditor General described the progress made towards eliminating these deficiencies and recommended that the Department develop and implement a new system, while at the same time continue to bring up to date its verification procedures on royalties already received.

In a report to the Select Standing Committee on Public Accounts in December 1985, the Provincial Treasurer responded to the Auditor General's 1983-84 recommendation as follows:

> "The newly developed System for Natural Gas and Natural Gas By-Products Royalties has been implemented effective with January 1, 1985 production. This System is designed to be fully operational by the middle of 1986, and will significantly improve the Department's control of Natural Gas and Natural Gas By-Products Royalty Revenue."

As the various parts of the new system are implemented and become operational, the Audit Office will evaluate their effectiveness in eliminating the previously reported control deficiencies. Meanwhile, the Department has initiated a special project to bring up to date the checking and verification of its gas royalty and related information for 1983 and 1984. This project is attempting to eliminate the arrears in the Department's procedures for:

- verifying the accuracy of the information on monthly gas royalty reports submitted to the Department by Crown lessees,
- verifying and completing adjustments to gas royalties payable caused by adjusting gas cost allowances to actual, and
- verifying gas volumes.

Management anticipates that the project will be complete and the arrears eliminated by late 1986.

Pending full implementation and evaluation of the new natural gas and natural gas by-products royalty system, and elimination of the arrears in the information verification procedures, the Auditor General's recommendation is repeated.

Recommendation: (No. 8) *(1981-82: No. 20)*

It is recommended that the Department of Energy and Natural Resources continue to implement the Department's newly developed system to record, monitor and control royalty revenues from natural gas and natural gas by-products, and bring up to date the verification of its existing data.

3.4.5 DEPARTMENT OF HOSPITALS AND MEDICAL CARE

Substantial amounts of interest are not being received by the Province as soon as they should be because the Department of Hospitals and Medical Care is in arrears in performing capital construction project audits. Furthermore, the financial reporting practices relating to this interest, and the legislative controls over expenditures from the interest, could both be improved.

The Alberta Hospitalization Benefits Regulations require capital construction grants paid by the Department of Hospitals and Medical Care to be held, pending final disbursement by hospitals, in accounts maintained by the hospital boards in the Province's Consolidated Cash Investment Trust Fund (CCITF). The Regulations also provide that interest earned on these CCITF accounts

may be used by hospital boards to off-set any interest charges incurred relating to the approved construction projects or, with the approval of the Minister of Hospitals and Medical Care, may be used to finance approved construction projects in lieu of additional grants.

When an approved construction project is completed, its expenditures are subjected to "project audits" performed by the Department. Grant monies paid in excess of approved and audited expenditures, together with CCITF interest earned that has not been off-set against interest charges incurred or that has not been approved by the Minister for other project expenditures, is then refundable to the General Revenue Fund.

At March 31, 1985, the interest accumulated in hospital board CCITF accounts and not refunded to the Provincial Treasurer amounted to over $19.5 million. Of this amount, $7 million was for projects that were complete or substantially complete at March 31, 1985. Evidence obtained during the 1984-85 annual audit indicates that substantially all of the $7 million will be refundable to the General Revenue Fund when the Department has completed the necessary project audits.

Recommendation: (No. 9)

It is recommended that the Department of Hospitals and Medical Care complete its audits of funded capital construction projects more promptly so that surplus interest earned by hospital boards on grant monies can be returned to the Province.

Interest earned and held in CCITF accounts by hospital boards that may or may not eventually be refundable to the Province raises two further concerns.

Firstly, although the interest is held in accounts maintained by hospital boards, it cannot be used by the boards without the express approval of the Minister of Hospitals and Medical Care. In effect, therefore, unless and until the Minister approves disbursements by the hospital boards, the interest is government money held by the boards. As such, it could be contended that until the Minister approves further disbursements, whether as a result of project audits or otherwise, the interest accumulated in hospital board CCITF accounts should be treated as public money or money receivable by the Province in the financial statements of the General Revenue Fund.

Secondly, where the Minister approves expenditures from CCITF interest earned by hospital boards, those expenditures escape most legislative controls to which normal government expenditures are subject. Since these expenditures are not from funds appropriated by the Legislative Assembly, they do not undergo the budget review, debate and approval process, nor are they reported in the public accounts of the Province.

Recommendation: (No. 10)

It is recommended that consideration be given to:

- *adopting a more informative way of disclosing in the public accounts monies held by hospital boards over which the Province has power of disposition, and*
- *strengthening the legislative control and accountability over expenditures approved from interest earned by hospital boards on grant monies they receive from the Province.*

3.4.6 DEPARTMENT OF SOCIAL SERVICES AND COMMUNITY HEALTH

The Department of Social Services and Community Health is addressing various deficiencies in its financial and administrative systems.

Vocational Rehabilitation of Disabled Persons

In his 1983-84 annual report (subsection 2.4.5), the Auditor General described two deficiencies in the Department's system for providing vocational rehabilitation for disabled adults. Adequate procedures were not in place to ensure that grants were calculated and disbursed in accordance with approved criteria, or for determining whether funded agencies were operating as contemplated in legislation.

The Auditor General recommended that the Department issue standards and guidelines governing the preparation of budgets and financial reports by vocational training and rehabilitation agencies. He also recommended that the Department develop systems for monitoring compliance by these agencies with standards and guidelines, and for ensuring that grants are disbursed only in accordance with established criteria.

In a response to this recommendation in December 1985, the Provincial Treasurer stated:

> "The Department will have in place, by the 1986-87 fiscal year, finalized guidelines for standardized reporting formats and consistent accounting treatment of various expenditure categories. These guidelines will assist the Regions in monitoring the agencies' financial activities in conjunction with the assessment of the program."
>
> During the 1984-85 annual audit it was observed that progress had been made towards establishing these guidelines. The Audit Office will continue to monitor the development and establishment of the necessary standards and systems but, pending their implementation, the Auditor General's recommendation is repeated.

Recommendation: (No. 11) *(1983-84: No. 14)*

It is recommended that the Department of Social Services and Community Health issue standards and guidelines governing the preparation and submission to the Department of budgets and financial statements for vocational training and rehabilitation agencies. The Department should also have adequate systems for monitoring compliance with such standards and guidelines, and for ensuring that grants paid to these agencies are in accordance with established criteria.

Provincial Laboratory of Public Health

During the Department's 1983-84 annual audit, it was observed that the legislative status of the Provincial Laboratory of Public Health was somewhat unusual. The laboratory and its objectives were originally established by an Order in Council in 1907. That Order in Council has long since been rescinded and today, the Laboratory operates with very different objectives and in a similar manner to a Provincial agency. A big difference, however, is that it does not operate under the authority of a Provincial statute.

In his 1983-84 annual report, the Auditor General recommended that the Department proceed with efforts to resolve the uncertainties concerning the operations and legislative status of the laboratory.

The 1984-85 audit revealed that the Department and the University of Alberta have continued the arrangement whereby the Department provides annual grants and the University holds the grants and uses them to pay the laboratory's operating and administration expenses. The Department has established a Review Committee to examine and make recommendations concerning the laboratory's functions and objectives, its operating authorities and its accountability structure. The Department has indicated that appropriate changes will be made in July 1986, provided that the necessary enabling legislation can be passed during the 1986 spring session of the Legislative Assembly.

Pending these changes, the Auditor General's recommendation is repeated.

Recommendation: (No. 12) *(1983-84: No. 15)*

It is recommended that the Department of Social Services and Community Health continue with its efforts to resolve the uncertainties concerning the operations and legislative status of the Provincial Laboratory of Public Health.

Alberta Dental Association

During the Department's 1983-84 annual audit, deficiencies were observed in the contract arrangements between the Department and the Alberta Dental Association (A.D.A.), as well as in the procedures used by the Department to administer the contract. In his 1983-84 annual report, the Auditor General recommended that the Department improve its procedures for ensuring that

it pays the A.D.A. only for services that are valid, eligible and reasonable. He also suggested that future contracts of this nature be more precise in defining administrative costs that are eligible for reimbursement.

In a response to this recommendation, in December 1985 the Provincial Treasurer stated:

> "Negotiations currently under way with the Alberta Dental Association will ensure that deficiencies identified by the audit are remedied. Any new agreement will specify:
>
> 1. The maximum amount of administrative costs payable.
> 2. The definition of administrative services.
> 3. That the outside auditors report on compliance with the contracts."

Pending completion of the negotiations and any new agreement with the A.D.A., the Auditor General's recommendation is repeated.

Recommendation: (No. 13) *(1983-84: No. 16)*

It is recommended that the Department of Social Services and Community Health establish procedures and obtain the information it needs to ensure that it pays the Alberta Dental Association only for dental services that are valid, eligible and reasonable. In addition, future contracts negotiated with the Association should define more precisely the administrative costs that are eligible for reimbursement, and the manner in which monies advanced to the Association shall be managed and accounted for.

Child Welfare Payment and Information System

The Department's 1983-84 annual audit identified a number of weaknesses in the system used to administer certain aspects of the Department's Child Welfare Program. In his 1983-84 annual report, the Auditor General recommended that the system be strengthened to ensure that:

— it meets the Department's information needs, including providing explanations for variances between budgeted and actual costs,

— caseworkers, administrative staff and case files comply with the requirements of the Department's Child Welfare Program Manual, and

— payments for goods and services supplied are properly authorized, documented and not duplicated.

In response to this recommendation, in December 1985 the Provincial Treasurer stated:

> "The Child Welfare Information System is currently being upgraded to provide suitable program and financial information to management. This will include a detailed client cost profile to enable comparisons to be made between projected and actual costs.
>
> Child Care Workers have been reminded to abide by the requirements of the program manual. The monitoring unit being established in Service Delivery will strengthen the review activities to ensure compliance with the different program manuals.
>
> Procedures are in place to ensure that payments for goods and services supplied are properly authorized, documented and not duplicated."

Pending a review of the action taken by the Department, the Auditor General's recommendation is repeated, albeit in a revised form.

Recommendation: (No. 14) *(1983-84: No. 17)*

It is recommended that the Department of Social Services and Community Health review, and where necessary improve, its Child Welfare payment and information system to ensure that:

— *it meets the Department's information needs, including providing explanations for variances between budgeted and actual costs, and*

— *caseworkers and administration staff comply with the requirements of the Department's Child Welfare Program Manual.*

Children in Care

During the 1984-85 annual audit it was concluded that the Department needs to strengthen its procedures for checking that operators of residential facilities for children in care comply with their funding and other financial obligations.

The agreements under which these facilities receive funding require operators to submit annual budgets for approval, to report annually the results of operations, and to refund to the Department funding received in excess of approved requirements. However, the Department has not established adequate monitoring procedures to check that operators meet their financial obligations, or to protect the Province's financial interests under these agreements.

For example, an instance was observed where the operator of a residential facility had:

— submitted, and the Department had accepted, budgets containing large and unexplained provisions for salaries and benefits, and telephone and utilities,

— been allowed to charge corporate income taxes as operating costs, even though these were not allowable expenses under the funding agreement,

— charged to operating costs mortgage expenses well in excess of the amounts budgeted, and the Department had not queried the excess charges,

— been allowed to claim operating costs that were not included in the approved budgets, again without the Department querying the charges,

— been exempted from the contractual obligation to provide annual audited financial statements, without the Department specifying an appropriate alternative, and

— reported operating surpluses for the three years ended March 31, 1984, but had only refunded to the Department the funding surplus for 1984, not the surpluses for 1982 and 1983.

Recommendation: (No. 15)

It is recommended that the Department of Social Services and Community Health establish procedures to monitor compliance by operators of residential facilities for children in care with their budgeting, reporting, refunding, and other financial obligations under the agreements pursuant to which they receive Provincial funding.

Income Security Program Systems

During the 1984-85 annual audit, deficiencies were observed in the computer systems that capture and record payments under the Department's Income Security Program, and which assist in verifying the eligibility and entitlements of income security recipients.

The Department records information relating to income security recipients and the assistance they receive on five separate computer systems. These are:

— a system that records income security cheques issued by the Department's district offices,

— a system that records benefit vouchers issued by district offices,

— a system that records income security cheques issued automatically each month from the Department's central office to recipients who have demonstrated an ongoing need for income security assistance,

— a cost detail system which, each month, captures the amounts recorded on the above three systems and maintains a central and ongoing history of the assistance received by each recipient, and

— a centrally maintained Client Index System which, by using computer terminals, allows district offices to ascertain whether potential recipients are already receiving or have in the past received income security assistance.

During the audit, it was observed that some transfers of data between these systems are not performed automatically, and the Department does not have adequate procedures for ensuring

the consistency of data on the computer files of the various systems. Computer assisted auditing techniques were used to search for inconsistencies in the data stored on the various systems' files. These techniques revealed numerous instances where the data was anomalous and inconsistent.

One such instance was where two income security recipients were both recorded as having the same social insurance number. Further investigation revealed that in fact there was only one recipient who, by using different names and dealing with different social workers, appears to have obtained more assistance than is allowed under the regulations. This matter has since been referred to the Department of the Attorney General for further action. Although investigating the numerous other anomalies and inconsistencies revealed no other situations where apparent irregularities had occurred, it confirmed that the computer files contain a considerable amount of erroneous data. Accordingly, the value of this data for management information and control purposes is limited.

Recommendation: (No. 16)

It is recommended that the Department of Social Services and Community Health establish procedures to detect and correct anomalies and inconsistencies in the data stored on the various computer systems used to administer the Income Security Program. Consideration should be given to integrating the systems used to capture and record data so that anomalies and inconsistencies, and transactions and data of an unusual nature, are highlighted for investigation.

3.4.7 DEPARTMENT OF THE SOLICITOR GENERAL — MOTOR VEHICLES DIVISION

As a result of the Department of the Solicitor General's senior financial management failing to provide appropriate direction and control during the development and implementation of a major new computer system for its Motor Vehicles Division, financial accounting and control were seriously impaired.

The Department is responsible for providing a program of vehicle registration, driver licencing, regulatory control and motor vehicle accident claims for the Province in a manner that enhances public safety, facilitates user convenience and assists law enforcement agencies. The revenues generated from these sources approximate $80 million per year. It is important, therefore, that systems be in place to ensure that these revenues are properly controlled and accounted for.

The Department has developed and implemented a new Motor Vehicles Computer System (MOVES). Its main functions are to record information relating to motor vehicle and operator licences, to calculate licence fees, to maintain and control licence inventories, and to produce financial reports of revenues and receivables. MOVES was designed to be a state-of-the-art online system to service these needs throughout the Province. It took three years to develop and cost more than twelve million dollars.

The audit of the Motor Vehicles Division for the year ended March 31, 1985 revealed that the methods used to control the manual conversion of data to MOVES and the processing of data by MOVES were deficient. These and other ancillary problems were caused largely by insufficient direction and control by senior financial management.

Conversion of Data to MOVES

Prior to August 1984, the Division used a batch computer system called PARTS to process and report its licencing and registration information. A feature of PARTS was that it used a suspense account to record and hold transactions that could not immediately be processed. The methods used to convert data on the PARTS suspense account file to MOVES did not ensure that data could not be lost or recorded incorrectly. For example:

— the listing of suspense account transactions prepared for conversion at August 1984 was not reconciled to the undistributed revenue report (produced by PARTS) and the related cash book information,

— the suspense account listing was not maintained in a manner that showed which transactions had been converted to MOVES and which had not,

— the number and value of unconverted transactions at March 31, 1985 could not be determined accurately, thus preventing accurate year-end reporting,

— clerical staff whose duties involved controlling the conversion of transactions from the suspense account listing were not provided with comprehensive written instructions,

— there was no evidence that shortages in remittances received from licence issuers were followed up to determine whether they should have been billed and collected, and

— the balance of unconverted transactions was arbitrarily distributed to the revenue accounts.

Accordingly, failure to establish and maintain control over the conversion process resulted in misclassification of revenues and misstatement of both revenues and accounts receivable.

Recommendation: (No. 17)

It is recommended that in future when converting data to a new computer system, the Department of the Solicitor General ensure that appropriate senior managerial staff are responsible for planning, defining and documenting the conversion procedures (including manual procedures), testing the conversion procedures, ensuring that the staff involved are suitably trained and instructed, and maintaining control over the completeness and accuracy of the converted data.

Reconciliations of Processed Data

Financial reports from MOVES are produced using a commercial software package purchased from Management Sciences of America (MSA). MOVES passes the processed data through a posting program to MSA which, in turn, produces the reports. Reconciliation procedures were not established to ensure that data input to MOVES was processed through the entire system and that the information reported by MSA was complete and accurate. For example:

— MOVES did not produce daily control totals of transactions processed. As such, data input to and processed by MOVES could not be reconciled to the information produced by the posting program,

— although the posting program produced control totals, they were not reconciled with the information produced by MSA,

— a detailed report of journal vouchers that was originally produced on request, and which could have been compared with source documents to verify processing accuracy, was no longer being requested by the accounting department, and

— data entry staff could "back out" or reverse transactions from MOVES at any time without the knowledge or authorization of responsible financial management. Although MOVES had the facility to produce reports of these potentially irregular transactions for management review, such reports were not produced.

These management and data control weaknesses have contributed to the production of unreliable financial and management control information by the Department. For instance, during the audit it was discovered that an unknown quantity of "mail-in" transactions had been lost; that is, they had been input to MOVES but not passed to MSA, thus rendering the MSA reports inaccurate. The Division has since identified the value of the transactions lost, but at the conclusion of the audit the records had not been adjusted.

Unless proper reconciliation procedures and management review of systems outputs are established, there will be a continuing risk that inaccuracies in the financial records may remain undetected, and that other system deficiencies may remain unidentified.

Recommendation: (No. 18)

It is recommended that the Department of the Solicitor General improve the financial control exercised over data processed by its Motor Vehicles Computer System. In particular, this should include:

— *modifying the system to facilitate the step-by-step reconciliation of data,*

— *establishing and documenting reconciliation procedures to provide prompt assurance that all input is processed completely and accurately, and that reconciliation reports are reviewed and approved by senior financial managers, and*

— *producing a regular journal entry report and instituting "back-out" and similar exception reports, all of which should be used to compare and review individual and unusual transactions, and should be reviewed and approved by senior financial managers.*

Management Information

MOVES and MSA process and provide information to help the Department's senior financial managers discharge their responsibilities and to meet the financial reporting requirements of the Province. The aforementioned data control problems, compounded by inadequate or ineffective supervisory and management review of output, resulted in inaccurate reports and system malfunctions remaining undetected. For example:

— unearned revenues at March 31, 1985 reported to the Treasury Department for public accounts purposes were misstated by approximately $2 million, and

— a number of general ledger balances contained errors. For example, the bank balance as at March 31, 1985 as shown in the general ledger was approximately $48 million, whereas the correct balance (and the balance reported to the Treasury Department for that date) was approximately $12 million.

Timely and regular reviews of reports produced by the system would have increased the likelihood of inaccuracies and irregularities being detected and acted upon more promptly.

Recommendation: (No. 19)

It is recommended that the Department of the Solicitor General institute regular financial management reviews of the financial information produced by the Motor Vehicles Computer System to ensure that the reports and records are accurate, complete, reliable, timely and useful.

Parameter Tables

MOVES is designed to make extensive use of parameter tables to control processing. For example, fee schedules, system user identification, system access security, and relevant system dates are just some of the data stored on approximately two hundred of these parameter tables.

During the audit, it was observed that access to these tables and the ability to change them was not selectively restricted. As such, approximately thirty staff members of the Department's systems support group, systems group and data base group could change any of these parameter tables without the knowledge or authorization of the responsible financial managers. Moreover, as there was no formal table-change procedure in operation, changes made were not recorded for subsequent review or back-up, and the system itself did not produce a list of table changes.

Since the audit, the Department has instituted a manual record of table changes. This, however, does not prevent any of the staff with access to the tables from effecting significant system changes without proper authorization, or accidentally damaging or destroying important tables with little chance of detection. Furthermore, reconstructing previous processing events should reruns be required would be difficult because the system lacks an effective transaction trail.

Recommendation: (No. 20)

It is recommended that the Department of the Solicitor General establish procedures for the Motor Vehicles Computer System which:

— *restrict the ability to change the system's parameter tables to the limited number of staff who need it,*

— *require prior approval from appropriate levels of management before parameter tables are changed,*

— *require table changes, including the before and after status and the identity of the person making the change, to be recorded by the system, and*

— *require table change reports to be reviewed promptly by senior management to determine whether all changes have been authorized and effected correctly.*

Designing and Developing Systems

The accounting and finance staff of the Department and the Division are major users of MOVES and MSA and are responsible for the authenticity, completeness and accuracy of the information processed and produced. For this reason, these users should have been involved extensively in the design and development of the systems. In this way, they could have ensured that appropriate financial controls were included, that their operational concerns were considered, and that the system would be able to meet their administrative, managerial and reporting requirements.

It appears, however, that the accounting staff were involved insufficiently in the design and development phases. For example, the implementation and planning manual shows that Departmental and Divisional accounting staff were not actively represented on the MOVES management team, the project review committee, the project team, or the user committee. This non-involvement undoubtedly contributed to the conversion, reconciliation and review problems outlined above.

The following problems observed during the audit also appear to have resulted, to some extent, from insufficient involvement by accounting and financial staff in the design and development of MOVES and MSA:

— Accounting staff and financial management were unaware of the nature and intended purposes of some of the reports and general ledger accounts produced by the systems.

— There were no procedural manuals or other operating instructions covering such activities as MOVES — MSA reconciliations, bank reconciliations, suspense account clearing, and approval of refunds.

— In the absence of procedural manuals, postings to the general ledger suspense account were not reviewed and cleared to ensure that the general ledger balances were correct.

— A report produced by the system which analyses licence issuer accounts and shows discrepancies between amounts entered by issuers and corresponding deposits by the accounting department, was not being reviewed or pursued for explanations.

— There was an absence of communication between the systems group, the accounting department, and the mail-in processing group. As a result, on one occasion, the wrong processing mode was used when processing transactions, thereby causing the account balances to be misstated.

Not until December 1984, three months after the systems became operational, was a MOVES Financial Administration Committee established. Its defined objectives were:

— to ensure that a system is in place to reconcile revenues, cash and banking,

— to review the reports that are, and that will be, produced by the system,

— to ensure that MOVES is fully documented, and

— to ensure that a continuing training program is available for supervisors and to update them on changes.

The Committee was disbanded before any of these objectives were achieved.

Recommendation: (No. 21)
It is recommended that as an important user of the Motor Vehicles Computer System, financial management of the Department of the Solicitor General take steps to eliminate the system control problems already identified and ensure that the system is properly controlled before further system development takes place.

Bank Reconciliations

The audit revealed that monthly reconciliations of the Division's main bank account had fallen seriously in arrears. For example, the March 1985 bank reconciliation was not fully complete in November 1985.

The March 1985 bank reconciliation presented for audit included several large adjusting entries, some of which were poorly supported or explained. Most of these entries represented omissions or mispostings in the general ledger. These could have been investigated and corrected if the reconciliations had been performed promptly. In addition, the method used to reconcile the bank account does not provide assurance that all receipts and payments are accounted for. These inadequacies appear to have occurred mainly because of an absence of properly documented instructions governing the preparation of bank reconciliations, and lack of timely review by qualified supervisory staff.

Recommendation: (No. 22)

It is recommended that the Department of the Solicitor General establish procedures governing the preparation of monthly bank reconciliations of the Motor Vehicles Division that satisfy the guidelines contained in Chapter 8 Section 3 of the Treasury Department's Manual of Financial Administration. Sufficient resources should be applied to enable these reconciliations to be brought up to date and, in future, prepared, reviewed and approved on a timely basis.

Internal Audit

Chapter 2 of the Treasury Department's Manual of Financial Administration states that "members of the internal financial audit unit should possess skills, knowledge and experience in auditing, statistical sampling, financial management, accounting and possess a basic knowledge of government and its financial processes. The head of an internal financial audit unit should hold a recognized accounting designation and possess the skills and experience as outlined."

An "internal financial audit unit should evaluate existing financial information systems to ensure that officers have the information they require to perform their financial management responsibilities and for compliance with external requirements to ascertain accuracy, completeness, reliability, timeliness, and usefulness of the financial records and classification of accounts, and to determine whether the record-keeping and reporting are adequately and effectively controlled. An internal financial auditor should have access to and knowledge of all departmental control systems."

The Department's internal audit unit does not satisfy several of the criteria called for by the Manual of Financial Administration. If the unit had been operating as envisaged by the Manual, and if it had been involved during the design, development and implementation of MOVES and MSA, many of the aforementioned accounting and control problems could have been avoided, together with the considerable costs to be incurred in correcting such problems.

Recommendation: (No. 23)

It is recommended that, in view of the level of financial activity and the complexity of the systems involved, the Department of the Solicitor General establish a chief internal auditor position and appoint to it an individual with the necessary recognized accounting designation, skills and experience, reporting directly to the Department's deputy head.

Concluding Comments

Indications of many of the problems described above were apparent quite early in the audit. In July 1985, Audit Office representatives met with senior management and drew attention to the seriousness of the situation. Although steps have since been taken to address some of the problems identified, many still persist. It is imperative that the Department continue with its efforts to resolve the problems that remain and, in addition and perhaps most importantly, ensure that the circumstances that caused the problems are not allowed to recur.

Recommendation: (No. 24)

It is recommended that the Department of the Solicitor General ensure that suitably trained and experienced personnel are assigned to addressing the numerous accounting and financial control deficiencies identified during the 1984-85 audit of the Motor Vehicles Division, and to preventing their recurrence.

3.4.8 DEPARTMENT OF TRANSPORTATION

The Department of Transportation has continued to eliminate the previously reported deficiencies in its financial controls and accounting systems, though one still remains.

In his 1981-82 annual report, the Auditor General commented on a number of system deficiencies that were observed during the Department's annual audit. Successive annual reports since then have acknowledged the progress made towards eliminating these deficiencies. In his 1983-84 annual report (subsection 2.4.7), the Auditor General identified the concerns that still remained, and recommended that the Department continue with efforts to improve its financial controls and accounting systems.

The 1984-85 annual audit revealed that the previously reported inadequacies in the system that provides the Department's Accounting Operations Division with the information needed to control and bill cost recoveries on construction projects and bridge repairs had been eliminated. Procedures were in place to ensure that the Division receives all cost sharing agreements and regular cost sharing files.

However, previously reported deficiencies in the system used to control and account for the Department's fixed assets had not been eliminated. There were still no Departmental guidelines governing the control of fixed assets in the regions, districts and branches, nor were there effective procedures for identifying and dealing with lost, obsolete and surplus assets. It is understood, however, that with effect in 1986-87 the Department intends to control and account for its own assets by utilizing the system presently used to control and account for the fixed assets of the Transportation Revolving Fund. This proposal will be evaluated during the 1985-86 audit.

The Auditor General acknowledges the action taken by the Department since 1981-82 to eliminate the previously reported system deficiencies in the areas of revenue and accounts receivable, expenditure and accounts payable, payroll, and contract administration and holdbacks. The remaining recommendation relates only to fixed assets.

Recommendation: (No. 25) *(1981-82: No. 40)*

It is recommended that the Department of Transportation continue with efforts to improve control over the Department's fixed assets.

3.4.9 HEALTH CARE INSURANCE FUND

Control Over Employer-Group Premiums Receivable

In his 1983-84 annual report (subsection 2.4.9), the Auditor General reported on serious impairments to accounting control over employer-group premiums receivable by the Health Care Insurance Fund. These impairments occurred following revisions to the computer systems used to record and control employer-group premiums. It was recommended that the Department of Hospitals and Medical Care require its Finance and Administration Division to be actively involved in all revisions or additions to information processing systems of the Health Care Insurance Fund that have accounting or financial implications.

The 1984-85 annual audit revealed no similar impairments to accounting control over employer-group premiums receivable. It was noted that the Finance and Administration Division was taking a very active role in developing the Fund's information processing systems. Accordingly, the Auditor General's recommendation is not repeated in this report.

Control Over Operation, Maintenance and Revisions of Systems

In his 1983-84 annual report, the Auditor General also reported on difficulties encountered by Audit Office staff when attempting to locate documentation and information relating to the design and operation of the Fund's EDP systems. It also reported on difficulties encountered in locating members of staff who were knowledgeable about the operation of the systems. It was

recommended that the Department of Hospitals and Medical Care take action to ensure that the computerized systems of the Health Care Insurance Fund are operated, controlled and managed by properly trained and knowledgeable staff, and that systems changes are only made after all implications have been considered.

During the 1984-85 audit it was noted that, while some progress had been made, much more needs to be done before systems documentation will be raised to an adequate standard. The Department has indicated that steps are being taken to upgrade systems documentation, though it is recognized that this task will take a number of years to complete. The Department also stated that levels of staff training and supervision are being improved.

In view of the action taken and proposed, the Auditor General's recommendations are not repeated in this report. The Audit Office will continue to monitor the Department's efforts to upgrade system's documentation, and to improve its staff training and supervision.

Alberta Blue Cross Plan

The Health Care Insurance Fund pays the Alberta Blue Cross Plan for optional health services paid by the Plan on behalf of registrants who have arranged for optional health coverage with the Fund. For the year ended March 31, 1985, the total expenditure reimbursing the Plan for claims and a portion of administrative costs amounted to $74,416,000. The following observations arose from the Fund's March 1985 annual audit in connection with this significant category of expenditure:

— The agreement for optional health services to be provided by the Plan provides that the Minister of Hospitals and Medical Care may examine the records of the Plan. The Department has not taken advantage of this provision to determine whether amounts paid to the Plan are reasonable and in accordance with the agreement.

— The Department has not attempted to reconcile payments made to the Plan with listings or computer tapes containing individual claim amounts. The Audit Office was unable to reconcile the computer tapes supplied by the Plan with amounts paid by the Fund.

— The Audit Office's examination of the tapes provided by the Plan revealed many apparent errors. A number of registration numbers were invalid, service dates were often later than payment dates, and some claims were paid for service dates during which the registrants did not appear to have Alberta Blue Cross Plan coverage.

— The Plan performed a computer match of the registration file maintained by the Plan with a copy of the registration file maintained by the Fund. This match indicated that the Plan had 1,200 active registrations which did not appear on the Fund's registration file. While valid reasons may exist for these non-matching registrations, it is important that they be investigated to determine whether claims are being paid for registrants not entitled to Alberta Blue Cross Plan coverage. In a letter to the Audit Office, the Plan's Director of Computer Services stated that "Alberta Health Care has indicated to us that they do not wish to service the results of this match."

Recommendation: (No. 26)

It is recommended that the Department of Hospitals and Medical Care exercise its rights under the agreement for optional health coverage by the Alberta Blue Cross Plan to examine the records of the Plan. Such examinations could include periodic matches of the registration file with the records of the Health Care Insurance Fund as well as selective reviews of systems and controls.

Recommendation: (No. 27)

It is recommended that claims paid by the Alberta Blue Cross Plan and reimbursed by the Health Care Insurance Fund be supported by computer tapes, and that regular procedures be established to balance these tapes and to test-verify individual claims. Consideration should also be given to developing computer routines to check for reasonableness the claims paid by this Plan.

Backlogs of Unprocessed Claims

During the year ended March 31, 1985, the Fund experienced severe problems in processing a large backlog of claims. Override codes were used to by-pass computer edit checks so that claims could be processed more quickly and the backlog cleared. The Internal Audit Branch of the Department subsequently reviewed these claims and, on the basis of identified errors, projected that total overpayments had been significant.

Recommendation: (No. 28)

It is recommended that the Department of Hospitals and Medical Care carefully monitor volumes of unprocessed Health Care Insurance Fund claims and take immediate action to clear abnormal accumulations so that drastic measures, such as using override codes, become unnecessary.

Statements of Benefits

Annual statements of benefits forwarded by the Department to residents of Alberta are not being sent out within a reasonable period of time. These statements are prepared for payments to June 30 each year but are often not received by residents until approximately six months later. The time required for preparation, submission and payment of claims, together with the annual nature and late mailing date of the statements, result in very long periods between the times when the medical services are provided and the dates when the statements are received. As a result, residents may have difficulty remembering whether the information shown on the statements is accurate. Since a primary objective of the statements is to detect inaccurate charges, their effectiveness in this regard is reduced.

Recommendation: (No. 29)

It is recommended that the Department of Hospitals and Medical Care review the frequency with which statements of benefits provided by the Health Care Insurance Fund are prepared, and that efforts be made to issue these statements as soon after the selected dates as practicable.

3.4.10 INVESTMENT OF SURPLUS FUNDS

Current legislation still precludes some Provincial agencies from availing themselves of the advantages of investing surplus funds in the Province's Consolidated Cash Investment Trust Fund (CCITF).

The Colleges Act and the Technical Institutes Act state that Boards of colleges and institutes that operate pursuant to those Acts shall keep their funds in chartered banks, treasury branches, trust companies or credit unions. Other Provincial entities operate pursuant to statutes that impose similar restrictions on the placement of funds.

In his 1979-80, 1982-83 and 1983-84 annual reports (1983-84: subsection 2.4.11), the Auditor General commented on the need for some Provincial agencies to improve their procedures and strategies for investing surplus funds. The agencies concerned were certain public colleges, technical institutes, universities and hospitals that are exempt from the banking arrangements specified by the Financial Administration Act. Some of the difficulties were contributed to by small agencies having insufficient staff to devote the time and attention needed to manage surplus funds in a way that maximizes investment yield while at the same time maintaining security and the liquidity needed for day-to-day operations.

At August 31, 1985, colleges and technical institutes had deposits totalling $1,500,000 in the Northland Bank. Although the principal portion of these deposits will eventually be repaid, it appears that interest otherwise accruing on the deposits since September 1, 1985 will be lost. It is worth noting that the action by the Government of Canada to "insure" the deposits in the Northland Bank effectively resulted in double public funding for the educational institutions involved. Initially, the funding that gave rise to the surplus funds was provided by the Province, and secondly, the funding to replace the lost deposits was provided by the Government of Canada. This would not have happened and interest income since September 1, 1985 would not have been foregone if the educational institutions had been able to, and had, invested their surplus funds in the CCITF.

The ten public colleges and three technical institutes continue to have significant amounts of surplus funds available for investment. At June 30, 1983, a total of $70 million was held in bank accounts, short-term deposits and similar investments. At June 30, 1984 the figure was $56 million, and at June 30, 1985, $80 million.

The Auditor General believes that a first step towards resolving the problems outlined above would be to remove the legislative constraints that currently prevent the educational institutions from investing their surplus funds in the CCITF. The CCITF is a fund administered by the Treasury Department which pools the funds of a number of approved depositors in order to maximize the investment yield available to each depositor while at the same time providing daily liquidity. It would appear, therefore, ideally suited to satisfying the cash management needs and security concerns of many smaller agencies with surplus funds to invest.

In his 1982-83 annual report, the Auditor General recommended that the Government consider removing the legislative impediments that currently preclude certain agencies participating in the CCITF. In a report to the Select Standing Committee on Public Accounts in October 1984, the Provincial Treasurer responded to the Auditor General's recommendation as follows:

> "The Government concurs with the recommendation. Where appropriate, Provincial agencies will be granted legislative authority to allow them the option of utilizing the services of the Consolidated Cash Investment Trust Fund to maximize investment yield while maintaining liquidity of funds surplus to immediate needs."

Although the Provincial Treasurer stated that the Government concurs with the Auditor General's recommendation, the necessary legislative changes were not effected and, accordingly, the recommendation was repeated in the Auditor General's 1983-84 annual report.

In December 1985 the Provincial Treasurer issued a report which contained exactly the same response to this recommendation that he had given to the 1982-83 recommendation. However, the legislation remains unchanged.

Inasmuch as the Government has indicated its agreement with the recommendation, and in view of the amounts involved and the security problems experienced, action should be taken without delay to amend the legislation so that the Provincial agencies concerned may have the option of depositing their surplus funds in the CCITF.

Recommendation: (No. 30) *(1982-83: No. 10)*

It is recommended that action be taken to initiate the legislative changes needed to allow appropriate Provincial agencies the option of utilizing the services of the Consolidated Cash Investment Trust Fund to maximize investment yield while maintaining security and liquidity of invested surplus funds.

3.4.11 LAND TITLES OFFICE — CALGARY

In his 1983-84 annual report (subsection 2.4.12), the Auditor General reported that in September 1984 the Calgary City Police had arrested three senior officers of the Land Titles Office, Calgary. He stated, however, that as the matter was before the Courts, it was considered inappropriate to report on the underlying events at that time.

During the period from February 4, 1982 to August 16, 1984, the Deputy Registrar of Land Titles, the Manager of Administrative Services and the Accountant together defrauded the Land Titles Office. The three officers who conspired jointly to perpetrate the fraud were all authorized to sign cheques to refund overpayments of registration fees. Several refund cheques totalling $781,748 issued during this period were found to be fraudulent.

The fraud was difficult to detect because the senior positions held by the three officials enabled them to deal with any questions relating to the fraudulent transactions in a plausible and authoritative manner. Furthermore, the normal system of internal control was rendered ineffective by the seniority of the officials involved and because there was collusion.

Following the discovery of the fraud, the Internal Audit Division of the Department of the Attorney General and representatives of the Audit Office jointly reviewed the adequacy of the financial controls in the Land Titles Office, Calgary. Recommendations for improvements were accepted by Management and are in the process of being implemented. In addition, claims have been submitted to the Government's insurers for recovery of the amounts lost.

3.4.12 PENSION ADMINISTRATION

The Treasury Department has continued with its efforts to eliminate the previously reported deficiencies in the systems used to administer the Province's pension plans, though two deficiencies still remain.

In his 1979-80 annual report, the Auditor General commented on a number of deficiencies in the operations and accounting records of the Province's Pension Administration. Since then, successive annual reports have acknowledged the progress made towards eliminating those deficiencies. In his 1983-84 annual report (subsection 2.4.15), the Auditor General identified two deficiencies that still remained and recommended that the Treasury Department continue with its efforts to eliminate them.

The 1984-85 annual audit revealed that although further progress has been made, the two system deficiencies identified in 1983-84 have not been eliminated. These were as follows:

— Not all computer-produced alert messages representing actual or potential errors in the pension records are followed up or investigated. Management indicated that although following up or investigating all alert messages continues to be established policy, nevertheless a shortage of resources effectively prevents this happening. Instead, only those alert messages considered by Management to be high risk are followed up or investigated.

  The Audit Office believes that all alert messages produced by the system are potential errors or matters that require investigation, and accordingly, ignoring some of them represents an ongoing control deficiency.

— The control exercised over the processing of accounting adjustments still needs strengthening, though improvements have been made. The recent implementation of improved manual controls and review procedures, together with more accurate and timely recording and follow up of accounting data, have greatly reduced the incidence of errors. Nevertheless, some weaknesses remain and Management intends to address these during the development of a new computerized pension system.

In view of the remaining deficiencies, the Auditor General's recommendation is repeated.

Recommendation: (No. 31) *(1979-80: No. 44)*

It is recommended that the Treasury Department continue to eliminate the remaining accounting and financial control deficiencies in the operations and accounting records of the Pension Administration.

3.4.13 THE WORKERS' COMPENSATION BOARD

In his 1983-84 annual report (subsection 2.4.17), the Auditor General commented on a number of weaknesses in the financial controls and accounting systems of The Workers' Compensation Board. These had been identified during the 1983-84 and previous audits. Most of them related to the computerized payroll and injured workers information systems. Also of concern were inadequacies in the procedures for checking the accuracy of compensation payment calculations, and the need for a formal policy governing the period over which class deficits should be recovered, and the way they should be recovered during that period.

The 1984 annual audit revealed that action had been taken to resolve virtually all of the Auditor General's concerns, though some still remained relative to the systems that process pension payments to injured workers and other compensation payments. However, since these will be eliminated by major revisions to the Board's computer systems planned for implementation by early 1986, the Auditor General's previous recommendations are not repeated in this report.

SECTION 3.5 — INAPPROPRIATE ACCOUNTING POLICIES AND INADEQUATE DISCLOSURES

Reported pursuant to subsection 19(3) of the Auditor General Act

3.5.1 ALBERTA HERITAGE SAVINGS TRUST FUND

In his 1978-79 annual report (subsection 4.4.1), the Auditor General suggested that the accounting practice of showing "deemed assets" on the balance sheet of the Alberta Heritage Savings Trust Fund is potentially misleading. "Deemed assets" represent the accumulated non-recoverable expenditures of the Trust Fund's Capital Projects Division; they are not assets of the Trust Fund nor, in many cases, are they assets of the Province.

Section 6(8)(a) of the Alberta Heritage Savings Trust Fund Act states that "investments in the Capital Projects Division shall be deemed to be assets of the Trust Fund with a value equal to the amounts expended." Accordingly, the annual financial statements of the Alberta Heritage Savings Trust Fund are prepared on that basis. However, deemed assets are segregated from the other assets of the Trust Fund in its balance sheet and the Trust Fund equity is allocated likewise between net assets and deemed assets.

Despite the disclosure in the financial statements, the Auditor General considered that the potential still existed for misleading the reader of the financial statements. As a result the Auditor General's report to the Legislative Assembly for the 1978-79 fiscal year contained a recommendation to the effect that consideration be given to amending the Alberta Heritage Savings Trust Fund Act to enable the accounting treatment of the non-recoverable amounts expended on Capital Projects to be accounted for in the financial statements of the fund as expenditure and not as assets on the Balance Sheet.

The recommendation was not accepted by the Government on the grounds that section 6(8)(a) of the Alberta Heritage Savings Trust Fund Act requires this accounting practice and, as such, represents public policy established by statute. The Auditor General has made no reference to this accounting practice in his reports on the financial statements because the statements differentiate between the assets of the Trust Fund and deemed assets. However, time and experience have shown that this form of presentation in the financial statements often creates an incorrect public perception of the Trust Fund's real value. Usually, the value of the Trust Fund is quoted at a figure that includes "deemed assets", which now have a "deemed" value in excess of $2 billion.

In reviewing the legislation with respect to "deemed assets", in particular section 6(8)(a) of the Act, the Audit Office has noted that section 6(8) commences with the words: "For the purposes of this section". Thus, in the context of this introduction, the "deeming" of expenditures as assets may be merely for computational purposes in order to establish the limit on Capital Projects Division investments set out earlier in section 6 (see section 6(2)(b)). It may be unnecessary, therefore, to obtain legislative amendments in order to treat non-recoverable money expended as expenditures of the Trust Fund.

Recommendation: (No. 32)

It is recommended that the cumulative amount of non-recoverable money expended by the Alberta Heritage Savings Trust Fund on Capital Projects at March 31, 1985, be written off to fund equity and that no further non-recoverable money expended on Capital Projects after that date be capitalized.

The implementation of this recommendation would not preclude the continuation of the present schedule to the financial statements which shows the cumulative sums spent on each Capital Project. This schedule could even be expanded to make it more informative than at present. It could be included as a separate financial statement to show the achievements of the Trust Fund in developing capital projects from the Trust Fund's inception.

3.5.2 ALBERTA HOSPITAL EDMONTON

The 1984-85 financial statements of the Alberta Hospital Edmonton record interest earned on operating funds in an inappropriate manner.

In November 1984, the Mental Health Hospital Board of Alberta Hospital Edmonton authorized the creation of a special purpose fund. This fund was to receive interest earned on monies

invested by the Board, except for interest earned on capital funds. From the date that the fund was created until March 31, 1985, interest earned by the Hospital on non-capital funds amounted to almost $317,000.

Pursuant to the prevailing legislation, this interest revenue is firstly revenue of the Hospital, even though the Board has directed that it shall be credited to the special purpose fund. As such, it should be recorded as revenue in the Hospital's statement of revenue and expenditure. Then, in accordance with the Board's direction, an amount equal to the interest earned on non-capital funds should be transferred to the special purpose fund by way of an appropriation from revenue surplus.

Instead of adopting this form of financial statement disclosure, the interest earned on non-capital funds was credited directly to the special purpose fund. As such, the revenue and revenue surplus for the year were both understated by almost $317,000 in the Hospital's statement of revenue and expenditure for the year ended March 31, 1985.

The Auditor General issued a reservation of opinion in his report on the Hospital's 1984-85 financial statements by drawing attention to the failure to record interest earned on non-capital funds in the statement of revenue and expenditure. The Board considers that the accounting policy used is appropriate, and disagrees with the Auditor General's opinion.

Recommendation: (No. 33)

It is recommended that the Alberta Hospital Edmonton present fairly the Hospital's annual operating results by disclosing in its statements of revenue and expenditure all interest earned by the Hospital and, in accordance with the Mental Health Hospital Board's stated policy, appropriating each year an amount equal to interest earned on non-capital funds from revenue surplus to the special purpose fund.

3.5.3 DEPARTMENT OF AGRICULTURE

In his 1983-84 annual report (subsection 2.5.2), the Auditor General commented on a number of errors that had been observed in the information contained in the 1982-83 annual report tabled by the Department of Agriculture. The most significant of these was a $90 million overstatement in the Department's 1982-83 expenditures.

The Auditor General suggested that the Department take more care in future to ensure that its accountability reports are accurate. He also indicated that the Audit Office is willing to review financial information contained in such reports before they are printed.

When preparing its 1984-85 annual report, the Department availed itself of the Auditor General's offer and no inaccuracies were observed in the financial information in the Department's annual report.

3.5.4 DEPARTMENT OF MANPOWER

For the second consecutive year, the expenditures of the Department of Manpower were reported inaccurately in the Public Accounts of the Province.

In his 1983-84 annual report (subsection 2.5.3), the Auditor General described how the expenditures of the Department of Manpower were reported inaccurately in the public accounts. Special Employment Programs expenditures were understated by $516,455, mainly because the accounts payable at March 31, 1984 were underestimated. Manpower Training expenditures were overstated by $227,875, mainly due to a lack of up-to-date information concerning the status of courses and agreements, and could have been avoided by better communication between the Department's financial management and the field officers responsible for organizing the courses.

During the 1984-85 annual audit it was noted that the Department had recorded accounts payable at March 31, 1985 of $11.7 million for Special Employment Programs expenditures. This amount was arrived at by deducting actual expenditures from gross contract commitments. It was subsequently determined by the Audit Office that the accounts payable at March 31, 1985 and, therefore, expenditures for the year then ended, were both overstated by approximately $6 million, due mainly to some contracts having been cancelled or otherwise not fulfilled. A correcting adjustment of $6 million was processed.

A further overstatement of $325,000 in Manpower Training expenditures, caused by certain accounts payable for Alberta Vocational Training course expenditures being duplicated, was also noted by the Audit Office but was not corrected in the Public Accounts.

It is recognized that accurate information relating to commitments for Special Employment Programs expenditures may not be readily available at year-end due to the nature of the programs and the large number of participants. It is believed, however, that the Department can improve internal communication and systems to generate more accurate information prior to finalization of the Public Accounts.

Recommendation: (No. 34) *(1983-84: No. 26)*

It is recommended that the Department of Manpower ensure that year-end accruals and Departmental expenditures are reported accurately in the Public Accounts of the Province.

3.5.5 DEPARTMENT OF MUNICIPAL AFFAIRS

The 1983-84 annual report of the Department of Municipal Affairs, which was tabled in the Legislative Assembly during 1984-85, contained revenue and expenditure information relating to the Special Areas Trust Account that differed significantly from the figures in the Trust Account's audited financial statements. One significant difference was that tax recovery land sales were omitted from the revenue figures in the annual report.

Annual reports tabled in the Legislative Assembly by departments, boards and Provincial agencies are important accountability documents. They provide information to Members of the Legislative Assembly and the public on such matters as the scope of the department's programs, and what those programs achieved and cost during the year. As such they complement the detailed financial information published in the Province's Public Accounts. Accordingly, it is vital that information published in annual reports be accurate and meaningful, and that any financial information be consistent with information contained in the Public Accounts and other accountability reports.

The Department has indicated that in future, the financial statements of the Special Areas Trust Account will be reproduced in their entirety in tabled annual reports.

Recommendation: (No. 35)

It is recommended that in future, the Department of Municipal Affairs take care to ensure that financial information included in its annual reports tabled in the Legislative Assembly is accurate and consistent with information published in the Province's Public Accounts. The Audit Office is willing to review financial information contained in Departmental annual reports before such reports are printed.

3.5.6 FOOTHILLS PROVINCIAL GENERAL HOSPITAL

The Foothills Provincial General Hospital and the Department of Hospitals and Medical Care have been unable to agree on the eligibility of certain geographic appointment positions for funding by the Department.

A number of teaching hospitals affiliated with universities receive geographic appointments funding from the Department of Hospitals and Medical Care for physicians who provide services to a university as well as to one or more hospitals. The Foothills Provincial General Hospital receives funding for physicians working at the University of Calgary and at other hospitals in Calgary. Amounts received are in turn forwarded to the University of Calgary and other hospitals, or may be retained by the Foothills Provincial General Hospital for physicians working at that Hospital, in accordance with agreements regarding the services to be performed by the physicians involved. The Department reserves the right to approve each position before funding is provided.

The Departmental approval process did not appear to be strictly followed during the early 1980's. The Hospital periodically added certain positions to the claims for geographic appointments funding and, for a period of time, received payment for these new positions. At a later date the Department carried out an examination of all positions and determined that a number of the positions included on the claims by the Foothills Provincial General Hospital had not been approved. Accordingly, funding was then withheld for these positions.

The Hospital maintains that it has complied with all Departmental requirements and that earlier funding was an indication to the Hospital that the positions had been approved. The Hospital also maintains that a complete review would conclude that the positions now in dispute are essential to the operations of the institutions involved.

Included in accounts receivable on the balance sheet of the Foothills Provincial General Hospital as at March 31, 1985 are disputed claims for geographic appointments funding from the Department of Hospitals and Medical Care totalling approximately $2,300,000. These claims pertain to the 1982-83, 1983-84 and 1984-85 fiscal years. Because of the uncertainty of collection, and the amounts involved, it was necessary to include a reservation of opinion in the Auditor's Report on the financial statements of the Hospital.

Recommendation: (No. 36)

It is recommended that the Foothills Provincial General Hospital and the Department of Hospitals and Medical Care resolve the dispute over geographic appointments funding.

3.5.7 PENSION LIABILITY

The financial position of the Province would be displayed more meaningfully in the Consolidated Statement of Realizable Assets, Liabilities and Net Assets (the consolidated balance sheet) if the total liability for pension obligations was shown as a liability.

The Province of Alberta administers the affairs of six pension plans and guarantees the liability of a seventh. The six plans operate pursuant to the Local Authorities Pension Act, the M.L.A. Pension Act, the Public Service Management Pension Act, the Public Service Pension Act, the Special Forces Pension Act, and the Universities Academic Pension Act. The seventh plan operates pursuant to the Teachers' Retirement Fund Act.

Reporting Practices

At present, the Province's actuarially valued pension obligations are disclosed in a footnote to the consolidated financial statements. Only the portion of the obligations that is covered by assets set aside for that purpose is included as a liability (restricted profits and equity) in the consolidated balance sheet.

In his last six annual reports (1983-84: subsection 2.5.4), the Auditor General has expressed concern over the Province's methods of determining and reporting pension liabilities. Recognizing that a pension is a form of employee compensation, the Auditor General believes that pension costs should be charged to the years in which the related employee services are rendered. The deferral of costs to the future, to be accounted for when the pensions are paid, misstates the Province's operating results and financial position. The accounting and disclosure

policies currently used result in program costs being understated in the Province's Public Accounts and subsidies to local authorities, school boards and universities not being recorded.

Actuarial Valuations

Government policy requires independent (external) actuarial valuations for the six plans administered by the Province every three years. In his last three annual reports, the Auditor General has recommended that consideration be given to having interim valuations of the Province's pension obligations prepared by independent actuaries at those fiscal year ends at which full actuarial valuations are not prepared. This recommendation was prompted by recent dramatic increases in the Province's pension obligations and the need for timely accurate information on the liability. This need had been highlighted by the March 1984 independent valuations. As explained in last year's annual report, those valuations revealed that a number of errors occurred when calculating the accrued pension liabilities for five of the plans as at March 1981.

Responding to the Auditor General's recommendation, the Provincial Treasurer stated in a report to the Select Standing Committee on Public Accounts in December 1985 that consideration will be given to having interim actuarial valuations. In addition, the Province obtained full independent actuarial valuations as at March 1985 for the six plans that it administers.

The 1985 valuations disclosed that the total accrued pension liability for the six plans had increased by $1.57 billion from the liability disclosed by the 1984 valuations. The actuaries preparing the valuations indicated that approximately $800 million of the increase could be attributed to a change in the assumptions and methods used to prepare the 1985 valuations from those used to prepare the 1984 valuations. The most significant change was the use of a different mortality table. However, aside from the effect of the changes in assumptions and methods, a significant increase in the accrued pension liability has occurred since March 1984.

The last actuarial valuation of the Teachers' Retirement Fund, the legislation for which requires independent valuations every five years, was in 1983. In his 1983-84 annual report, the Auditor General noted that although the actuarial basis for valuations of the Teachers' Retirement Fund plan had moved closer to the basis used for the six Provincial plans, certain differences still existed. The Auditor General believes that a more useful assessment of the Province's total pension liability would be obtained if the economic assumptions used were uniform across all plans.

The accrued pension liability for the six plans administered by the Province and the Teachers' Retirement Fund is recorded in a footnote to the March 31, 1985 consolidated financial statements. The following summary shows the increase in the pension obligations and unrecorded liability which has occurred since March 31, 1984. The amount of the unfunded liability at March 31, 1984 and 1985 for the Teachers' Retirement Fund was estimated by the actuaries when finalizing the Fund's August 1983 valuation.

	Valuations as at March 31, 1985 (Millions of Dollars)	Valuations as at March 31, 1984 (Millions of Dollars)	Increase
Local Authorities Pension Act	$2,680	$2,070	$ 610
M.L.A. Pension Act	30	20	10
Public Service Management Pension Act	900	720	180
Public Service Pension Act	1,660	1,250	410
Special Forces Pension Act	390	260	130
Universities Academic Pension Act	780	550	230
	6,440	4,870	1,570
Deduct: Pension Fund assets	2,570	2,150	420
	3,870	2,720	1,150
Teachers' Retirement Fund Act (unfunded portion)	1,480	1,380	100
Unrecorded liability	$5,350	$4,100	$1,250

Curtailing Increases in the Unfunded Pension Liability

In his 1983-84 and previous annual reports, the Auditor General commented on recent increases in the Province's unfunded pension liability, and the likelihood that such increases will continue. Although legislation has been passed increasing contributions under the Local Authorities and Public Service pension plans, the 1985 actuarial valuations revealed that contributions for the six plans will likely be lower than estimated normal costs. As such, the Province's total unfunded pension liability will probably continue to grow.

Whether or not pension obligations should be funded, or to what extent, are matters of government policy and therefore beyond an auditor's purview. However, if the Government decides to reduce the Province's unfunded pension liability, or to curtail its growth, a number of methods can be considered.

Increasing pension contributions is one method that has already been used, though not to the extent necessary to eliminate the unfunded liability. Another way of curtailing the growth of the unfunded liability would be to transfer into the Pension Fund each year from the General Revenue Fund amounts equal to imputed interest on the unfunded liability calculated at market rates.

One way of avoiding unfunded pension liabilities is to implement money purchase pension plans. These types of plans do not contain the economic risks inherent in defined benefit pension plans. The retirement benefits are limited to those that can be purchased with the accumulated employer and employee pension contributions and income earned thereon. Accordingly, money purchase pension plans do not have unfunded liabilities.

As was acknowledged in the Auditor General's 1983-84 annual report, it is unnecessary for the Province to tie up large amounts of money in pension funds. Some jurisdictions partially or fully "fund" their pension guarantee obligations with their own interest-bearing notes, bonds or debentures. This enables the jurisdiction to have the money available for its own use and reduces the cost of borrowing funds for day-to-day expenditures. Since some liquidity will always be needed to meet short-term pension obligations, a combination of "arms-length" assets together with this "notional" funding is an alternative which might be considered.

Recording the Province's Full Pension Liability

As explained above, the Auditor General has recommended in his last six annual reports that the unrecorded liability arising from the Province's various pension plans be reflected as a liability in the consolidated financial statements of the Province. Recording the $5.35 billion liability in the consolidated financial statements of the Province, would reduce the consolidated surplus at March 31, 1985 from $12.60 billion to $7.25 billion. These figures demonstrate the significant impact that recording the liability would have on the reported net worth and operating results of the Province. Failure to record this liability obviously creates potential for misunderstanding the Province's financial position and operating results.

One way of recording the Province's full pension obligations as a liability would be to charge to expenditure an amount equal to the unfunded portion of the liability, thereby reducing the accumulated surplus shown on the Province's consolidated balance sheet. If recording the full amount of the unfunded pension liability in one year is considered inappropriate or undesirable, a policy could be devised whereby the amount was amortized to expenditure over predetermined time periods. If the total pension liability is recorded, a method should be developed whereby the cost of accruing pension benefits will be recorded on an ongoing basis.

Alternatively, the aforementioned pension reporting objective could be achieved by recording the Province's full pension liability as a liability of the Province's Pension Fund. The Pension Fund holds the assets set aside to meet the Province's future pension obligations but, at present, records as fund equity only the portion of the Province's pension liability equal to the value of the net assets it holds.

Although changes to the Pension Fund's legislation would be required, this method would enable the assets and liabilities to be matched on a plan-by-plan basis, while continuing to allow the investments of the Fund to be managed as a single pool. It would also enable the financial

statements of the Pension Fund to show whether net pension contributions and income earned on investments are increasing or decreasing the unfunded liability on a plan-by-plan basis. This has particular merit as the adequacy of pension contributions in relation to normal actuarial cost varies among the plans.

Conclusion

The Auditor General's concerns as outlined in this subsection are twofold. Firstly, the Province's total liability for pension obligations should be recorded as a liability on the consolidated balance sheet of the Province, and secondly, ways should be sought of restricting the growth of the Province's unfunded pension liability.

Recommendation: (No. 37) *(1978-79: No. 34)*

It is recommended that the total liability arising from the various pension plans administered and guaranteed by the Province be recorded as a liability in the financial statements of the Province. The accounting method used to implement this should incorporate charging all pension costs to the entities and programs that benefit therefrom. Furthermore, if the Government decides to restrict further increases in the Province's unfunded pension liability, consideration should be given to paying into the Pension Fund each year amounts equal to imputed interest calculated on the unfunded amount. Providing that the combined employer and employee contributions approximate the normal pension costs incurred, the payment of such interest will prevent the further growth of the unfunded liability.

Recommendation: (No. 38) *(1983-84: No. 28)*

It is recommended that interim valuations of the Province's pension obligations be prepared by independent actuaries at fiscal year ends when full actuarial valuations are not prepared.

Recommendation: (No. 39) *(1978-79: No. 34)*

It is recommended that the Treasury Department and the Board of Administrators of the Teachers' Retirement Fund employ common economic assumptions when valuing the pension plans administered by the Province of Alberta and the Teachers' Retirement Fund. Furthermore, similar action to that taken in response to recommendations No. 37 and 38 above, should also be considered to address the unfunded portions of the Teachers' Retirement Fund Pension Plan.

3.5.8 REPORTING OPERATING RESULTS BY PUBLIC COLLEGES

During the year ended June 30, 1984, Lethbridge Community College and Medicine Hat College made significant transfers from operating funds to restricted funds. These transfers were reported in the colleges' financial statements as deductions before arriving at surpluses for the year. This form of reporting is considered to be an inappropriate departure from generally accepted accounting principles, for which reason the Auditor General expressed reservations of opinion on the colleges' financial statements.

June 30, 1984 financial statements of Lethbridge Community College include transfers to restricted funds in the amount of $550,000 as deductions before arriving at the surplus for the year. Medicine Hat College reports transfers to restricted funds in the amount of $958,979 as operating expenditures for the year ended June 30, 1984. Transfers of this nature cannot be considered normal annual operating transactions and, accordingly, should be reported as transfers or appropriations of operating surplus. A related audit observation is that future expenditures charged to these transferred funds will likely not appear in the annual statements of revenue, expenditure and operating surplus thereby distorting operating results in those future years.

Recommendation: (No. 40)

It is recommended that public colleges include all normal annual operating transactions in their statements of revenue, expenditure and operating surplus in determining their surpluses or deficits for the year. It is also recommended that significant transfers of operating funds be excluded from the determination of surplus or deficit for the year.

3.5.9 TAX EXPENDITURES

Budgeting and reporting certain program costs as tax expenditures distorts the Province's reported revenues and expenditures. Furthermore, the control exercised over these costs by the Legislative Assembly is significantly weaker than the control exercised over normal government expenditures.

Tax expenditures are the cost of providing assistance, encouragement or relief to private sector activities or to individuals through various special provisions of the tax system. Typically, they are expenditures that take the form of special exemptions, deductions, credits, exclusions, preferential rates or deferrals. In other words, they are government revenues foregone through special provisions of the tax system which are specifically designed to provide incentives or relief to certain activities or individuals.

In Alberta, the main tax expenditures are royalty tax credits, small business deductions and renter assistance credits. For 1983-84 and 1984-85, the Province incurred tax expenditures through the tax collection system amounting to $739 million and $550 million respectively.

Governments in Canada budget and report most of their revenues and expenditures separately. This ensures that total revenues and total expenditures can be readily ascertained and compared one year with the next. It also means that expenditures are reported on a program-by-program basis, thereby keeping the public apprised of the costs of delivering the various government programs.

In recent years, however, some Canadian governments including the Alberta Government, have increasingly adopted the practice of budgeting and reporting certain of their expenditures as tax expenditures. The effect of this is that instead of budgeting and reporting these expenditures separately, they are treated as deductions from revenues. Budgeting and reporting expenditures in this manner results in program costs being understated. It also means that total revenues and total expenditures are both understated, thereby partially invalidating comparisons of total public expenditures from one year to the next.

However, perhaps the most serious aspect of tax expenditures is the significantly weaker legislative control to which they are subject. Normal government expenditures must undergo a rigorous process of budget review and justification, and legislative debate and approval. Furthermore, normal government expenditures can be disbursed only when the appropriate documentary and approval requirements have been met.

In most cases, the legislative and administrative control exercised over government revenues is considerably less rigorous. Revenues, and the tax expenditures deducted from them, do not receive the indepth budgetary review and debate that other expenditures receive. In addition, most tax expenditures are disbursed without direct government pre-approval because they are usually deducted by the recipients of the benefits, from revenues paid to the government under self-assessment systems.

Recommendation: (No. 41)

It is recommended that tax expenditures be treated in the same manner as normal government expenditures for both budgeting and financial reporting purposes.

SECTION 3.6 — SUMMARY OF CURRENT RECOMMENDATIONS

Recommendations appearing throughout this report are reproduced in this section. Each recommendation is serially numbered and cross referenced to the section in which it appears so that the reader may readily determine the context in which the recommendation is made. Where a recommendation was contained in a previous year's report, the fiscal year of the report in which the recommendation first appeared is shown above and to the right of the recommendation.

1. (Section 3.3.1)

It is recommended that the Alberta Petroleum Marketing Commission review its policies and systems to evaluate their appropriateness and effectiveness, and ensure that they are adequately documented.

2. (Section 3.3.2)

(1983-84: No. 2)

It is recommended that the Department of Hospitals and Medical Care establish consultative arrangements — including liaison with the Treasury Department — to help hospitals resolve problems in connection with funding commitments that lapse at fiscal year-ends.

3. (Section 3.3.5)

It is recommended that, in future, the Department of Recreation and Parks ensure that when expenditure limits or other conditions applicable to grant programs are changed in accordance with policy direction received, the relevant legislative authorities are amended accordingly.

4. (Section 3.3.6)

(1983-84: No. 6)

It is recommended that:

(a) in order to comply with the prevailing legislation, all proceeds collected from lottery operations be deposited to the General Revenue Fund; and that all payments of costs of lottery operations and all payments to be regarded as distributions of the net profits from those operations be made pursuant to the authority of appropriations of the legislature, or alternatively,

(b) that the Interprovincial Lottery Act be revised to authorize the collecting, handling and distributing of lottery proceeds through a statutory fund or Provincial agency or by some other method that would constitute an exception within section 19(1)(b) of the Financial Administration Act.

It is further recommended that the Interprovincial Lottery Act be revised to indicate that this statute is based on the authority of section 190 of the Criminal Code of Canada.

5. (Section 3.3.9)

It is recommended that honoraria not be paid to members of the TRF Board out of the Teachers' Retirement Fund and that all honoraria that have been received by a member for service on the Fund's Investment Committee be repaid to the Fund.

6. (Section 3.3.9)

It is recommended that:

— The Board of Administrators of the Teachers' Retirement Fund request the Treasury Board to formulate a general management policy and issue a directive with respect to directors' fees received by board members of a Provincial agency from corporations in which the Provincial agency is a shareholder.

— Once a policy directive has been issued by the Treasury Board which deals with directors' fees, the Board of Administrators of the Teachers' Retirement Fund should seek amendments to the Teacher's Retirement Fund Act which are in compliance with the policy established by the Treasury Board, and which will eliminate the ambiguity with respect to the nature of remuneration that members of the Board are allowed to receive from sources outside the Teachers' Retirement Fund. If the directive and amendments to the Teachers' Retirement Fund Act do not allow the retention of directors' fees by Members of the Board, directors' fees already received by Board Members should be paid to the Teachers' Retirement Fund unless otherwise directed by the Treasury Board.

7. (Section 3.4.2)

(1979-80: No. 45)

It is recommended that the Alberta Research Council continue with efforts to eliminate the remaining financial control problems in its fixed assets, project contracts and inventories systems.

8. (Section 3.4.4) **(1981-82: No. 20)**

It is recommended that the Department of Energy and Natural Resources continue to implement the Department's newly developed system to record, monitor and control royalty revenues from natural gas and natural gas by-products, and bring up to date the verification of its existing data.

9. (Section 3.4.5)

It is recommended that the Department of Hospitals and Medical Care complete its audits of funded capital construction projects more promptly so that surplus interest earned by hospital boards on grant monies can be returned to the Province.

10. (Section 3.4.5)

It is recommended that consideration be given to:

— adopting a more informative way of disclosing in the public accounts monies held by hospital boards over which the Province has power of disposition, and

— strengthening the legislative control and accountability over expenditures approved from interest earned by hospital boards on grant monies they receive from the Province.

11. (Section 3.4.6) **(1983-84: No. 14)**

It is recommended that the Department of Social Services and Community Health issue standards and guidelines governing the preparation and submission to the Department of budgets and financial statements for vocational training and rehabilitation agencies. The Department should also have adequate systems for monitoring compliance with such standards and guidelines, and for ensuring that grants paid to these agencies are in accordance with established criteria.

12. (Section 3.4.6) **(1983-84: No. 15)**

It is recommended that the Department of Social Services and Community Health continue with its efforts to resolve the uncertainties concerning the operations and legislative status of the Provincial Laboratory of Public Health.

13. (Section 3.4.6) **(1983-84: No. 16)**

It is recommended that the Department of Social Services and Community Health establish procedures and obtain the information it needs to ensure that it pays the Alberta Dental Association only for dental services that are valid, eligible and reasonable. In addition, future contracts negotiated with the Association should define more precisely the administrative costs that are eligible for reimbursement, and the manner in which monies advanced to the Association shall be managed and accounted for.

14. (Section 3.4.6) **(1983-84: No. 17)**

It is recommended that the Department of Social Services and Community Health review, and where necessary improve, its Child Welfare payment and information system to ensure that:

— it meets the Department's information needs, including providing explanations for variances between budgeted and actual costs, and

— caseworkers and administration staff comply with the requirements of the Department's Child Welfare Program Manual.

15. (Section 3.4.6)

It is recommended that the Department of Social Services and Community Health establish procedures to monitor compliance by operators of residential facilities for children in care with their budgeting, reporting, refunding, and other financial obligations under the agreements pursuant to which they receive Provincial funding.

16. (Section 3.4.6)

It is recommended that the Department of Social Services and Community Health establish procedures to detect and correct anomalies and inconsistencies in the data stored on the various computer systems used to administer the Income Security Program. Consideration should be given to integrating the systems used to capture and record data so that anomalies and inconsistencies, and transactions and data of an unusual nature, are highlighted for investigation.

17. (Section 3.4.7)

It is recommended that in future when converting data to a new computer system, the Department of the Solicitor General ensure that appropriate senior managerial staff are responsible for planning, defining and documenting the conversion procedures (including manual procedures), testing the conversion procedures, ensuring that the staff involved are suitably trained and instructed, and maintaining control over the completeness and accuracy of the converted data.

18. (Section 3.4.7)

It is recommended that the Department of the Solicitor General improve the financial control exercised over data processed by its Motor Vehicles Computer System. In particular, this should include:

— modifying the system to facilitate the step-by-step reconciliation of data,

— establishing and documenting reconciliation procedures to provide prompt assurance that all input is processed completely and accurately, and that reconciliation reports are reviewed and approved by senior financial managers, and

— producing a regular journal entry report and instituting "back-out" and similar exception reports, all of which should be used to compare and review individual and unusual transactions, and should be reviewed and approved by senior financial managers.

19. (Section 3.4.7)

It is recommended that the Department of the Solicitor General institute regular financial management reviews of the financial information produced by the Motor Vehicles Computer System to ensure that the reports and records are accurate, complete, reliable, timely and useful.

20. (Section 3.4.7)

It is recommended that the Department of the Solicitor General establish procedures for the Motor Vehicles Computer System which:

— restrict the ability to change the system's parameter tables to the limited number of staff who need it,

— require prior approval from appropriate levels of management before parameter tables are changed,

— require table changes, including the before and after status and the identity of the person making the change, to be recorded by the system, and

— require table change reports to be reviewed promptly by senior management to determine whether all changes have been authorized and effected correctly.

21. (Section 3.4.7)

It is recommended that as an important user of the Motor Vehicles Computer System, financial management of the Department of the Solicitor General take steps to eliminate the system control problems already identified and ensure that the system is properly controlled before further system development takes place.

22. (Section 3.4.7)

It is recommended that the Department of the Solicitor General establish procedures governing the preparation of monthly bank reconciliations of the Motor Vehicles Division that satisfy the

guidelines contained in Chapter 8 Section 3 of the Treasury Department's Manual of Financial Administration. Sufficient resources should be applied to enable these reconciliations to be brought up to date and, in future, prepared, reviewed and approved on a timely basis.

23. (Section 3.4.7)

It is recommended that, in view of the level of financial activity and the complexity of the systems involved, the Department of the Solicitor General establish a chief internal auditor position and appoint to it an individual with the necessary recognized accounting designation, skills and experience, reporting directly to the Department's deputy head.

24. (Section 3.4.7)

It is recommended that the Department of the Solicitor General ensure that suitably trained and experienced personnel are assigned to addressing the numerous accounting and financial control deficiencies identified during the 1984-85 audit of the Motor Vehicles Division, and to preventing their recurrence.

25. (Section 3.4.8) **(1981-82: No. 40)**

It is recommended that the Department of Transportation continue with efforts to improve control over the Department's fixed assets.

26. (Section 3.4.9)

It is recommended that the Department of Hospitals and Medical Care exercise its rights under the agreement for optional health coverage by the Alberta Blue Cross Plan to examine the records of the Plan. Such examinations could include periodic matches of the registration file with the records of the Health Care Insurance Fund as well as selective reviews of systems and controls.

27. (Section 3.4.9)

It is recommended that claims paid by the Alberta Blue Cross Plan and reimbursed by the Health Care Insurance Fund be supported by computer tapes, and that regular procedures be established to balance these tapes and to test-verify individual claims. Consideration should also be given to developing computer routines to check for reasonableness the claims paid by this Plan.

28. (Section 3.4.9)

It is recommended that the Department of Hospitals and Medical Care carefully monitor volumes of unprocessed Health Care Insurance Fund claims and take immediate action to clear abnormal accumulations so that drastic measures, such as using override codes, become unnecessary.

29. (Section 3.4.9)

It is recommended that the Department of Hospitals and Medical Care review the frequency with which statements of benefits provided by the Health Care Insurance Fund are prepared, and that efforts be made to issue these statements as soon after the selected dates as practicable.

30. (Section 3.4.10) **(1982-83: No. 10)**

It is recommended that action be taken to initiate the legislative changes needed to allow appropriate Provincial agencies the option of utilizing the services of the Consolidated Cash Investment Trust Fund to maximize investment yield while maintaining security and liquidity of invested surplus funds.

31. (Section 3.4.12) **(1979-80: No. 44)**

It is recommended that the Treasury Department continue to eliminate the remaining accounting and financial control deficiencies in the operations and accounting records of the Pension Administration.

32. (Section 3.5.1)

It is recommended that the cumulative amount of non-recoverable money expended by the Alberta Heritage Savings Trust Fund on Capital Projects at March 31, 1985, be written off to fund

equity and that no further non-recoverable money expended on Capital Projects after that date be capitalized.

33. (Section 3.5.2)

It is recommended that the Alberta Hospital Edmonton present fairly the Hospital's annual operating results by disclosing in its statements of revenue and expenditure all interest earned by the Hospital and, in accordance with the Mental Health Hospital Board's stated policy, appropriating each year an amount equal to interest earned on non-capital funds from revenue surplus to the special purpose fund.

34. (Section 3.5.4) **(1983-84: No. 26)**

It is recommended that the Department of Manpower ensure that year-end accruals and Departmental expenditures are reported accurately in the Public Accounts of the Province.

35. (Section 3.5.5)

It is recommended that in future, the Department of Municipal Affairs take care to ensure that financial information included in its annual reports tabled in the Legislative Assembly is accurate and consistent with information published in the Province's Public Accounts. The Audit Office is willing to review financial information contained in Departmental annual reports before such reports are printed.

36. (Section 3.5.6)

It is recommended that the Foothills Provincial General Hospital and the Department of Hospitals and Medical Care resolve the dispute over geographic appointments funding.

37. (Section 3.5.7) **(1978-79: No. 34)**

It is recommended that the total liability arising from the various pension plans administered and guaranteed by the Province be recorded as a liability in the financial statements of the Province. The accounting method used to implement this should incorporate charging all pension costs to the entities and programs that benefit therefrom. Furthermore, if the Government decides to restrict further increases in the Province's unfunded pension liability, consideration should be given to paying into the Pension Fund each year amounts equal to imputed interest calculated on the unfunded amount. Providing that the combined employer and employee contributions approximate the normal pension costs incurred, the payment of such interest will prevent the further growth of the unfunded liability.

38. (Section 3.5.7) **(1983-84: No. 28)**

It is recommended that interim valuations of the Province's pension obligations be prepared by independent actuaries at fiscal year ends when full actuarial valuations are not prepared.

39. (Section 3.5.7) **(1978-79: No. 34)**

It is recommended that the Treasury Department and the Board of Administrators of the Teachers' Retirement Fund employ common economic assumptions when valuing the pension plans administered by the Province of Alberta and the Teachers' Retirement Fund. Furthermore, similar action to that taken in response to recommendations No. 37 and 38 above, should also be considered to address the unfunded portions of the Teachers' Retirement Fund Pension Plan.

40. (Section 3.5.8)

It is recommended that public colleges include all normal annual operating transactions in their statements of revenue, expenditure and operating surplus in determining their surpluses or deficits for the year. It is also recommended that significant transfers of operating funds be excluded from the determination of surplus or deficit for the year.

41. (Section 3.5.9)

It is recommended that tax expenditures be treated in the same manner as normal government expenditures for both budgeting and financial reporting purposes.

SECTION 3.7 — RECOMMENDATIONS IN PREVIOUS ANNUAL REPORTS THAT WERE REJECTED OR ARE NOT COMPLETELY RESOLVED.

The Auditor General has adopted the reporting practice of carrying forward, from one annual report to the next, recommendations that remain unimplemented. Where, however, the Government has formally rejected a recommendation, or where an extended period is needed to resolve the underlying problems, the recommendations are not carried forward in the normal way but are noted in this subsection of the report. Should events occur or circumstances change to warrant it, the relevant recommendations may be reactivated or the matter may no longer be reported.

3.7.1 ACCESS TO TAXATION RECORDS

In his 1978-79, 1979-80, 1980-81 annual reports (1980-81: subsection 2.6.1), the Auditor General commented on the circumstances that restrict his right of access to certain taxation records. The terms of the tax collection agreement between the Governments of Alberta and Canada effectively prevent the Auditor General of Alberta performing the audit work necessary to report on the collection of Provincial income taxes as required by subsection 19(2)(a)(i) of the Auditor General Act. In recent years, the Auditor General has obtained a measure of assurance, from audit work performed by the Auditor General of Canada, that the Province receives each year, the income taxes to which it is entitled. However, if at some future time the Auditor General of Alberta considered that further assurance is required to enable him to discharge his responsibilities under the Auditor General Act, the terms of the tax collection agreement could prevent him from obtaining such assurance.

In response to a recommendation that the restrictions to the Auditor General's right of access to certain taxation records be eliminated, the Provincial Treasurer has undertaken to raise the matter when federal-provincial negotiations of the tax collection agreement are next held.

A representative of the Auditor General of Alberta served on a task force comprising representatives of the provincial and federal legislative auditors that was established in 1979 to address the access problems facing provincial auditors. One proposal of that task force was that the Auditor General of Canada issue an audit opinion on annual financial statements showing provincial income taxes assessed, allocated, paid and due to the provinces and territories.

In December 1985, the Auditor General of Canada advised the provinces and territories that the first such statement will be issued, probably in early 1987, covering income taxes payable in respect of the 1984 taxation year, and adjustments for previous years. The Auditor General of Alberta acknowledges the cooperation of the Office of the Auditor General of Canada in recent years in developing this method of providing audit assurance respecting income taxes collected by Revenue Canada-Taxation on behalf of the Province of Alberta.

3.7.2 CENTRALLY INCURRED COSTS

In his 1978-79, 1979-80, 1980-81, 1981-82 and 1982-83 annual reports (1982-83: subsection 2.4.1), the Auditor General commented on the inappropriate and inconsistent methods used by the Province to account for certain costs associated with the occupation of premises and other centrally provided services. As a result of these methods, inconsistent and potentially misleading reporting occurs because some costs are charged to the programs that benefit from the services while others are charged to the programs that procure or provide the services. These inconsistencies distort the reporting of, and thereby impair the value of, the program budgeting and reporting concept.

To address this problem, the Auditor General recommended that consideration be given to employing budgeting and accounting policies that allocate the costs of fixed assets and major centrally provided services to the programs, funds and agencies that derive benefit from their use. Possibly this objective could be achieved using a revolving fund or similar vehicle.

The Government established a task force to assess the potential costs and likely benefits of implementing the Auditor General's recommendation. In 1984, however, because of the environment of fiscal restraint, the estimated cost and the difficulties experienced in quantifying the value of the benefits, it was decided to defer any action on the task force's findings and recommendations.

3.7.3 COMPARATIVE INFORMATION ON THE HERITAGE FUND'S INVESTMENT PERFORMANCE

In February 1982, the Auditor General issued a special report on certain matters related to the Alberta Heritage Savings Trust Fund. In that report, and in his 1980-81 and 1981-82 annual reports (1981-82: subsection 2.2), the Auditor General suggested that significant benefits may be derived from comparing the performance of the Heritage Fund's Section 10 investments with the performance of similarly constituted investment portfolios in the private sector. He recom-

mended, therefore, that the Treasury Department retain the services of an independent investment analyst capable of providing regular comparative information, and that such information could be made available to the Select Standing Committee on the Alberta Heritage Savings Trust Fund.

The Government rejected the Auditor General's recommendation for several reasons. Among these were that it does not consider that the publication of comparative performance information would be meaningful because of the special nature of the Heritage Fund, and because the amount of the Fund held in Section 10 investments is expected to decrease. In addition, it considers the non-comparative yield-to-maturity and rate-of-return information currently provided in the Heritage Fund's annual report to be sufficient.

3.7.4 FIXED ASSETS

In his 1978-79, 1980-81 and 1981-82 annual reports (1981-82: subsection 2.3.7), the Auditor General observed that the control exercised by the Government of Alberta over much of the Provincially owned furniture and equipment was inadequate and ineffective. He recommended that the systems used by many departments, funds and agencies to control and safeguard fixed assets be improved to comply with the requirements of section 9.5 of the Treasury Department's Manual of Financial Administration.

The Government agrees with the Auditor General's recommendation and through the Office of the Controller, is encouraging departments and agencies to improve their fixed asset systems. The Audit Office has noticed a gradual improvement in these systems and, as long as this trend continues, the Auditor General will not repeat this recommendation in his annual reports. However, as a normal part of annual audits, the Auditor General will continue to report observed inadequacies in fixed asset control systems to management of the applicable departments, funds and Provincial agencies.

3.7.5 INCOME TAX REVENUES

In his 1979-80, 1980-81 and 1981-82 annual reports (1981-82: subsection 2.3.13), the Auditor General commented on the difficulties involved in ensuring that, each year, the Province receives all the income tax revenues to which it is entitled.

In recent years, neither the Government of Canada nor the Province of Alberta has produced accurate estimates of the difference between Alberta income taxes assessed and the taxes that could be assessed if taxpayers complied fully with the law. Accordingly, neither the Province of Alberta nor the Auditor General are able to determine how much income tax receivable is not assessed, or to evaluate the effectiveness of the compliance and enforcement procedures used by the Government of Canada, as Alberta's agent, when collecting Alberta income taxes.

For these reasons, the Auditor General recommended that the Provincial Treasurer:

- estimate annually, either independently or in conjunction with the Department of National Revenue-Taxation, the income taxes assessable under the Alberta Income Tax Act.
- estimate annually how much income tax it is reasonable to expect will not be assessed assuming that the Department of National Revenue-Taxation employs adequate compliance and enforcement procedures.
- require each year, prompt remittances to the Province of the difference between these two estimates, or explanations for any significant variances.

The Provincial Treasurer responded to this recommendation as follows:

"One of the fundamental principles underlying Canada's income tax system is self-assessment — each individual is responsible to accurately report his taxable income. To encourage compliance with the provisions of the Income Tax Act, Revenue Canada each year audits a relatively small number of tax returns. This practice strikes a reasonable balance between

unquestioning acceptance of returns filed by taxpayers and a detailed audit of each return which would be prohibitively costly and an undue burden on individual Canadians.

The Auditor General of Canada reviews the sampling selection system used by Revenue Canada. As long as the federal Auditor General is satisfied that the procedures being used are adequate, we see no basis for questioning Revenue Canada's administrative practices.

Although there are no doubt cases where individuals are not paying tax on all or part of their incomes, the Alberta government believes that the administrative procedures used by Revenue Canada are, on balance, fair and appropriate. Under the terms of the Alberta-Canada Tax Collection Agreement, Alberta is entitled to receive only the tax that is actually assessed. The Government, therefore, does not intend to ask for payment from the federal government of taxes which Revenue Canada does not assess."

In view of this response, the recommendation is not carried forward again in this report. During future audits of Provincial revenues, however, the Audit Office will review the basis for the conclusions contained in the Provincial Treasurer's response.

The Provincial Treasurer's response indicates that Alberta does not intend to question the administrative practices of Revenue Canada providing that the Auditor General of Canada is satisfied that the procedures being used are adequate. However, in his 1980 annual report, the Auditor General of Canada recommended that the Department of National Revenue-Taxation improve its estimate of the tax gap associated with individuals who do not file income tax returns. It would appear, therefore, that reason may exist for questioning Revenue Canada's administrative procedures for determining income taxes collectable under the Alberta Income Tax Act. The Audit Office will continue to monitor any reports or statements issued by the Auditor General of Canada respecting Revenue Canada's administrative procedures that impact the assessment and collection of Alberta income taxes.

3.7.6 LEGISLATIVE CONTROL OVER MAJOR CAPITAL PROJECTS

In his 1979-80, 1980-81, 1981-82 and 1982-83 annual reports (1982-83: subsection 2.4.4), the Auditor General suggested that Members of the Legislative Assembly currently receive insufficient information to enable them to debate and approve the Province's major capital construction projects in an informed manner.

The problem arises because although the lives of these projects normally extend over several years, the Legislative Assembly approves their funding on a year by year basis. The basic information on which the Legislative Assembly debates and approves these annual expenditures is provided by the annual Estimates of Expenditure which contain little more than anticipated current year's expenditures and actual and estimated expenditures for the two previous years, often not on a project by project basis. Only infrequently are estimates of total project costs published formally with such important information as anticipated length and annual costs and the allowance made for monetary inflation.

To provide Members of the Legislative Assembly with the information necessary to debate and approve annual funding for major capital construction projects, the Auditor General recommended that annual appropriation bills be supported by more comprehensive financial information. As a minimum, this information should include details of the original estimated costs and scope of each project, cost and scope revisions, costs incurred to the end of the previous fiscal year, current year cost forecast, amount to be appropriated for costs during the next fiscal year, estimated future costs to completion, estimated impact of monetary inflation, current and future costs compared to original cost estimates, and the total estimated eventual cost of the project.

The Government rejected the Auditor General's recommendation on the grounds that it is not convinced that providing more extensive information would increase legislative control. It believes that any additional information needed can be elicited from the responsible ministers by means of questions during committee of supply review.

3.7.7 METIS POPULATION BETTERMENT TRUST ACCOUNT

In his 1983-84 annual report (subsection 2.3.11), the Auditor General called attention to a number of problems relating to non-compliance with the legislative authorities pertaining to the establishment and administration of the Metis Population Betterment Trust Account.

The main problem concerned the doubtful legality of the Trust Account. An independent legal opinion obtained by the Auditor General states that the Trust Account is not legally constituted because section 8 of The Metis Betterment Act lacks the authority to establish a fund of this nature. If the Trust Account is not legally constituted, it follows that the revenue it receives, the expenditures it makes, the assets it acquires, and the liabilities it incurs, all lack legislative authority.

Another problem concerned the manner in which the members are appointed and elected to the local boards of the eight settlement associations established under The Metis Betterment Act. The method used does not comply with section 4(3) of the Act. In addition, the legislation governing the payment of honoraria to board members appears to be inconclusive and flawed. These two concerns cast considerable doubt on the legitimacy of honoraria paid to board members by the Department of Municipal Affairs.

The above matters, and others that have since been resolved, were dealt with in detail in the Auditor General's 1983-84 annual report. It was recommended that as soon as practical, action be taken to resolve the various problems relating to non-compliance with, and inadequacies in, the Trust Account's legislative authorities. In making this recommendation, however, the Auditor General acknowledged that some legislative changes must await removal of a moratorium on such changes pending resolution of a long-standing legal action against the Province by the eight Metis settlement associations claiming revenue derived from oil and natural gas leases on the Crown lands on which the Metis settlements are situated.

The Province has acknowledged the need to update The Metis Betterment Act and its regulations. Following a report in July 1984 from a committee chaired by Dr. Grant MacEwan, the Government is reviewing the nature, form and timing of new legislation and in encouraging more discussion with the Metis people on its content. In June 1985, a step was taken towards establishing, among other things, a framework for change and improvements to legislation when the Legislative Assembly unanimously approved a Motion dealing with the betterment (including settlement) of Metis people in Alberta.

3.7.8 NON-RENEWABLE RESOURCES INCENTIVE COSTS OFFSET AGAINST REVENUE

In his 1979-80, 1980-81, 1981-82 and 1982-83 annual reports (1982-83: subsection 2.4.6), the Auditor General criticised the practice of budgeting and reporting certain expenditures as deductions from revenue, rather than as separate program expenditures.

Governments in Canada usually budget and report revenues and expenditures separately. This enables total revenues and total expenditures to be ascertained more easily and compared one year with the next. It also means that expenditures can be controlled and accounted for on a program-by-program basis. In addition, because expenditures undergo a more frequent and rigorous budget review than revenues, expenditures budgeted as deductions from revenue are subject to less administrative and legislative control.

In most cases, Alberta adheres to the principle that revenues and expenditures should be budgeted and reported separately. A major exception to this, however, is that expenditures incurred under the exploratory drilling incentive and geophysical incentive programs are budgeted and reported as deductions from non-renewable resource revenue.

In his 1979-80, 1980-81, 1981-82 and 1982-83 annual reports, the Auditor General recommended that expenditures under these programs, whether in the form of grants or credits, be budgeted and reported separately in the annual Estimates and Public Accounts of the Province. The Government rejected the Auditor General's recommendations and in 1984 the Legislative Assembly enacted the Mines and Minerals Amendment Act, 1984 which requires the Provincial Treasurer to set-off costs incurred under the two aforementioned programs against non-renewable resource revenue.

3.7.9 PROGRAM EFFECTIVENESS

In his 1978-79, 1979-80, 1980-81 and 1981-82 annual reports (1981-82: subsection 2.8.1), the Auditor General recommended that departments and agencies improve the accountability information provided to the Legislative Assembly respecting program objectives and accomplishments. He suggested that program objectives should be published with specific and quantitative data being provided wherever practicable as measures of the intended use of the funds requested. This information would be available to Members of the Legislative Assembly when they consider the annual Estimates of Expenditure. After the end of each fiscal year, the departments and agencies would prepare reports summarizing the accomplishments resulting from the expenditure of funds for each program. The reports would also compare the accomplishments with the objectives and quantitative data provided in the estimates. If the Ministers responsible for the programs laid these reports before the Legislative Assembly each year, accountability would be improved and the Assembly's control over the "public purse" would be enhanced.

The Government rejected the Auditor General's recommendation on the grounds that it considers that the information presently published in the Estimates of Expenditure and in the annual reports of departments and agencies is adequate. It undertook, however, to give careful consideration to situations where management control systems audits performed by the Audit Office reveal instances where the achievements of programs can be measured more accurately.

It is interesting to note that in recent years, program evaluation has gained in popularity and acceptance in many jurisdictions. Several Canadian provinces, for example, have increased the scope and quantity of their evaluation activity. Most of these view program evaluation as an important management information and decision-making source and the Government of Canada has gone further by including selected evaluation results in the accountability information it tables in Parliament. In the United States, the legislation governing many major federal programs calls for the results of the programs to be evaluated and published periodically. In the United Kingdom, a paper on financial management in government departments presented to Parliament by the Prime Minister stated:

> "In particular, it is intended to develop the White Paper to contain clearer statements of the policy objectives to which expenditure is directed; and these will in turn be related to progress and performance indicators wherever possible. The intention is that there should be the closest possible relationship between both the public expenditure White Paper and the Estimates and the information systems which departments are developing for the management both of programmes and of their own activities and costs.
>
> The general aim is to disclose as much information as possible from departments' internal management information systems. There are however clearly some areas where publication is not appropriate, for example because the material has security implications, or because it would disclose management intentions where this would be self-defeating, such as in action against fraud or tax-evasion. Each Minister in charge of a department must make his own decisions about these matters."

It is believed that the everpresent need to allocate proposed budgetary expenditures more effectively, and the advances taking place in some jurisdictions in program evaluation methodology, will inevitably combine to promote the establishment by the Province of systems to measure program effectiveness. This should be encouraged where such systems can be integrated with line management functions, where they are cost effective and where they do not expand the Public Service.

3.7.10 TIMELINESS OF FINANCIAL REPORTING

In his 1981-82, 1982-83 and 1983-84 annual reports (1983-84: subsection 2.5.5), the Auditor General suggested that the Province's annual public accounts and the Auditor General's annual reports would be more meaningful and useful to the Legislative Assembly, to the Select Standing Committee on Public Accounts, and to the public, if they were published earlier than is currently the practice.

The Public Accounts are normally published almost a full year after the Province's March 31 year-end. Since the Auditor General's annual reports are, in effect, commentaries on the Public Accounts, they are not tabled until the sitting of the Legislative Assembly following publication of the public accounts. The Auditor General believes that for these two important accountability reports to achieve their full potential for usefulness and relevancy, they should be tabled during the fall sitting of the Assembly; that is, four or five months earlier than at present.

After outlining some of the advantages to the Province of more timely financial reporting, and some methods by which it could be achieved, the Auditor General recommended that the Treasury Department facilitate the necessary action.

In its three formal responses to this recommendation, the Government agreed that timeliness is an important objective in financial reporting. In addition, the Office of the Controller issued a financial reporting policy directive requiring earlier finalization of year-end accounts by departments and earlier preparation of financial statements of funds and agencies.

While the abovementioned responses are encouraging, nevertheless, they will not in themselves achieve the Auditor General's desired objectives. To do so will require a firm Government commitment to publishing the Province's Public Accounts by prescribed and progressively earlier dates. In addition, the Treasury Department will need to exercise its power pursuant to the Financial Administration Act, and coordinate its efforts with the Audit Office, to ensure that the necessary reporting dates are met. Unless this happens, timely financial reporting is unlikely to be achieved.

SECTION 4 — WORK OF THE AUDIT OFFICE

Reported pursuant to subsection 19(1)(a) of the Auditor General Act

4.1 THE AUDITOR GENERAL AS AUDITOR

4.1.1 Section 12(a) of the Act appoints the Auditor General auditor of every department, regulated fund, revolving fund and Provincial agency. Section 12(b) of the Act enables the Auditor General, with the approval of the Select Standing Committee on Legislative Offices, to be appointed auditor of Crown-controlled organizations and any other organizations or bodies.

The entities audited each year by the Audit Office are listed in the following paragraphs indicating the Legislative authority for the Auditor General's appointment.

4.1.2 The Public Accounts for the fiscal year ended March 31, 1985 contain the audited consolidated financial statements of the Province of Alberta, the audited financial statements of the General Revenue Fund and the audited financial statements of the following Provincial agencies, revolving funds and regulated funds. The Auditor General is auditor of these entities pursuant to section 12(a) of the Auditor General Act:

Advanced Education:
- Students Finance Board

Agriculture:
- Agricultural Research Council of Alberta
- Alberta Agricultural Development Corporation
- Alberta Agricultural Research Trust
- Alberta Dairy Control Board
- Alberta Hail and Crop Insurance Corporation
- Alberta Terminals Ltd.
- Irrigation Land Manager
- The Horned Cattle Purchases Act Trust Account
- Wheat Board Money Trust Account

Attorney General:
- Public Trustee
- The Alberta General Insurance Company

Culture:
- Culture Revolving Fund
- Glenbow-Alberta Institute
- The Alberta Art Foundation
- The Alberta Cultural Heritage Foundation
- The Alberta Foundation for the Literary Arts
- The Alberta Foundation for the Performing Arts
- The Alberta Historical Resources Foundation
- The Government House Foundation

Economic Development:
- Alberta Motion Picture Development Corporation

Education:
- School Book Branch
- School Foundation Program Fund
- Teachers' Retirement Fund

Energy and Natural Resources:
- Alberta Oil Sands Technology and Research Authority
- Alberta Petroleum Incentives Program Fund
- Alberta Petroleum Marketing Commission
- Forest Development Research Trust Fund
- Natural Gas Pricing Agreement Act Fund
- Natural Gas Pricing Agreement Market Development Fund

Environment:
- Alberta Environmental Research Trust
- Alberta Special Waste Management Corporation
- Environment Council of Alberta
- Surface Reclamation Fund
- Water Resources Revolving Fund

Executive Council:
- Alberta Research Council
- Energy Resources Conservation Board
- Personnel Administration - Revolving Fund
- The Alberta Educational Communications Corporation
- The Wild Rose Foundation
- The Workers' Compensation Board

Hospitals and Medical Care:
- Edmonton Area Hospital Advisory Council Fund
- Health Care Insurance Fund

Housing:
- Alberta Mortgage and Housing Corporation

Municipal Affairs:
- Alberta Planning Fund
- Improvement Districts' Trust Account
- Metis Population Betterment Trust Account
- Metis Settlements Trust Fund
- Special Areas Trust Account

Public Works, Supply and Services:
- Public Works, Supply and Services Revolving Fund

Recreation and Parks:
- Alberta Sport Council
- The Recreation, Parks and Wildlife Foundation

Social Services and Community Health:
- Alberta Alcohol and Drug Abuse Commission

Solicitor General:
- Alberta Liquor Control Board
- Alberta Racing Commission
- Motor Vehicle Accident Claims Fund

Tourism and Small Business:
- Alberta Opportunity Company

Transportation:
- Alberta Resources Railway Corporation
- Transportation Revolving Fund

Treasury:
- Alberta Heritage Foundation for Medical Research Endowment Fund
- Alberta Heritage Savings Trust Fund
- Alberta Heritage Scholarship Fund
- Alberta Municipal Financing Corporation
- Alberta Provincial Corporation Loan Fund
- Consolidated Cash Investment Trust Fund
- General Trust Account
- Land Purchase Fund
- Pension Fund
- Treasury Branches Deposits Fund
- Treasury Revolving Fund

Utilities and Telecommunications:
- Alberta Electric Energy Marketing Agency
- Gas Alberta Operating Fund
- The Alberta Government Telephones Commission
- The Alberta Government Telephones Employees' Group Life Insurance Trust Account
- The Alberta Government Telephones Employees' Pension and Death Benefit Fund

In addition, the Public Accounts also contain audited summary financial statements which incorporate the results and financial position of 10 other regulated funds and 32 trust and other funds over which the Legislature has no power of appropriation. In the opinion of the Auditor General, inclusion of these audited financial statements in the Public Accounts of the Province satisfies the reporting requirements of section 77 of the Financial Administration Act.

4.1.3 The audited financial statements of the following entities are not included in the Public Accounts because they are exempted from inclusion by section 2(5) of the Financial Administration Act. The Auditor General is auditor of these entities, which are the provincially owned universities, colleges, technical institutes, hospitals and related funds, pursuant to section 12(a) of the Auditor General Act:

Advanced Education:
- Colleges:
  - Fairview College
  - Grande Prairie Regional College
  - Grant MacEwan Community College
  - Keyano College
  - Lakeland College
  - Lethbridge Community College
  - Medicine Hat College
  - Mount Royal College
  - Olds College
  - Red Deer College
- The Banff Centre for Continuing Education
- Technical Institutes:
  - Northern Alberta Institute of Technology
  - Southern Alberta Institute of Technology
  - Westerra Institute of Technology
- Universities:
  - Athabasca University
  - The University of Alberta
  - The University of Calgary
  - The University of Lethbridge
- Academic Pension Plan Fund of The University of Alberta
- Chembiomed Ltd.

Hospitals and Medical Care:
- Alberta Cancer Foundation
- Alberta Heritage Foundation for Medical Research
- University Hospitals Foundation
- Hospitals:
  - Alberta Children's Provincial General Hospital
  - Alberta Hospital Edmonton
  - Alberta Hospital Ponoka
  - Foothills Provincial General Hospital
  - Glenrose Rehabilitation Hospital
  - Alberta Cancer Board
  - University of Alberta Hospitals

Although the audited financial statements of these entities are excluded from the Public Accounts, section 2 (5.1) of the Financial Administration Act requires the ministers responsible for administering the statutes under which they operate to lay a copy of these financial statements before the Legislative Assembly, except for the financial statements of the Alberta Heritage Foundation for Medical Research. Furthermore, the Provincial Treasurer has undertaken, as a convenience to regular users of the Public Accounts, to request that the appropriate ministers make available sufficient copies of the financial statements to enable them to be sent to all who request them. In this manner, an appropriate degree of accountability is achieved.

4.1.4 The financial statements of the following entities are also audited by the Auditor General pursuant to section 12(a) of the Auditor General Act but are not reproduced in the Public Accounts of the Province:

Advanced Education:
- Hydrocarbon Research Centre
- The Alberta Microelectronic Centre
- The Arctic Institute of North America

Agriculture:
Lambco, a division of Alberta Agricultural Development Corporation
Culture:
Glenbow Foundation
Luxton Museum, a department of Glenbow-Alberta Institute
Luxton Museum Ltd.
Education:
Northland School Division No. 61
Utilities and Telecommunications:
Alta-Can Telecom Inc.

In most cases, the information contained in the financial statements of the above entities is also contained in other financial statements included in either the Public Accounts or in the audited financial statements of entities exempted from inclusion in Public Accounts by section 2(5) of the Financial Administration Act.

4.1.5 Pursuant to the provisions of section 12(b) of the Auditor General Act, the Select Standing Committee on Legislative Offices approved the Auditor General's appointment as auditor of the following entities:

ACCESS Charitable Foundation
Banff Television Foundation
Canadian Energy Research Institute
Centre for Frontier Engineering Research Institute
Foothills Hospital Employees' Charity Fund
Foothills Hospital Foundation
Glenrose Rehabilitation Hospital Employee Benevolent Fund
Glenrose Rehabilitation Hospital Employee Charities Fund
Grande Prairie Regional College Foundation
Olds College Foundation
Sulphur Development Institute of Canada (SUDIC)
The Canadian Association of Youth Orchestras
The University of Alberta Foundation
The Trustees' of the Academic Staff Benefits Plans of The University of Alberta
University of Alberta Hospitals Employees' Benevolent Fund
University of Alberta Hospitals Employees' Charities Trust

The Auditor General was appointed auditor of the above entities at the request of management. Since in these instances there is no direct accountability to the Legislative Assembly, it is not considered appropriate to reproduce the audited financial statements in this report; nor are they included in the Public Accounts of the Province.

4.1.6 In addition to the entities covered by section 12 of the Auditor General Act, the Auditor General is also auditor of fourteen irrigation districts operating under the authority of the Irrigation Act, Chapter I-11, Revised Statutes of Alberta 1980. These irrigation districts are not provincially owned but receive cost-sharing funding for capital improvements from the Province of Alberta, particularly from the Alberta Heritage Savings Trust Fund. The Auditor General is appointed auditor of these districts under section 43 of the Irrigation Act. The irrigation districts concerned are:

Aetna Irrigation District
Bow River Irrigation District
Eastern Irrigation District
Leavitt Irrigation District
Lethbridge Northern Irrigation District
Macleod Irrigation District
Magrath Irrigation District
Mountain View Irrigation District
Raymond Irrigation District
Ross Creek Irrigation District
St. Mary River Irrigation District

Taber Irrigation District
United Irrigation District
Western Irrigation District

These irrigation districts are independently incorporated with no direct accountability to the Legislative Assembly. Accordingly, the audited financial statements are not included in the Public Accounts of the Province.

4.1.7 Under the terms of the Alberta Crown Agreement, the Auditor General, acting on behalf of the Minister of Energy and Natural Resources, post-audits on a continuing basis the books and records of the Syncrude Project. The purpose of this monitoring activity is to give assurance as to compliance with the Alberta Crown Agreement and related accounting manual and to verify the determination of the deemed net profit or loss of the Project, thereby establishing the quantity of synthetic crude oil and other leased substances that may be taken by the Province of Alberta as royalty.

The financial statements of Syncrude Canada Ltd, which operates the Syncrude Project, are audited by a firm of chartered accountants.

4.1.8 Crown-controlled organizations are defined by sub-section 1(b) of the Auditor General Act. Essentially, these entities qualify to be so designated because the Province of Alberta owns more than 50% but less than 100% of the issued voting shares. Crown-controlled organizations existing during the 1984-85 fiscal year were as follows:

Alberta Helium Limited
The University of Alberta Foundation

As explained in subsection 4.1.5 of this report, the Auditor General is auditor of The University of Alberta Foundation. The financial statements of Alberta Helium Limited are not audited by the Auditor General. The Auditor General's responsibilities for the financial statements of Crown-controlled organizations of which he is not auditor, are limited to the review function described in sectior 16 of the Auditor General Act.

4.1.9 The financial statements of the Alberta Energy Company, which is less than 50% owned by the Province of Alberta and therefore not a Crown-controlled organization, are neither audited by the Auditor General nor subject to section 16 of the Auditor General Act.

4.2 REPORTING RESPONSIBILITIES

4.2.1 The Auditor General reports to the Legislative Assembly under sections 18, 19 and 20 of the Auditor General Act, and to management under section 28 of the Act. In addition, specially requested reports are issued from time to time under section 17 of the Auditor General Act.

Section 18 Reports

4.2.2 In a report issued under section 18 of the Act, the Auditor General states whether, in his opinion, the financial statements present fairly the financial position, results of operations and changes in financial position of the Crown in accordance with the disclosed accounting principles, and whether they are on a basis consistent with those of the preceding year. A report of this nature is similar to reports issued by auditors on financial statements of private sector organizations audited in accordance with generally accepted auditing standards.

The section 18 report for the 1984-85 fiscal year was dated February 13, 1986 and is reproduced in subsection 2.1.2 of this report. Similar reports were issued on the financial statements of all entities of which the Auditor General is auditor. These reports are annexed to the related financial statements, most of which are contained in the Public Accounts of the Province.

Section 19 Reports

4.2.3 In a report issued under section 19 of the Act (this report), the Auditor General reports to the Legislative Assembly on the work of the Audit Office, and various other matters specified in section 19 of the Act, that were observed during the course of that work. There is virtually no limitation to what may be included in a section 19 report, since the Act empowers the Auditor General to call attention to any matter that he considers should be brought to the attention of the Legislative Assembly.

Section 20 Reports

4.2.4 In a report issued under section 20 of the Act, the Auditor General may report to the Legislative Assembly on any matter of importance or urgency that, in his opinion, should not be deferred until presentation of his annual report issued under section 19 of the Act.

No reports were issued under section 20 of the Act in respect of the fiscal year ended March 31, 1985.

Section 28 Reports

4.2.5 Reports issued under section 28 of the Act are more commonly referred to as management letters. The purpose of management letters, as explained more fully in subsection 3.1.6 of this report, is to communicate to management system weaknesses and deficiencies together with other matters observed during audits.

Management letters are addressed to the deputy minister or senior executive officer of the audited entity. Copies of most management letters are sent to the minister responsible for the audited entity and to the Secretary to the Treasury Board (except for Provincial agencies exempt under section 2(5) of the Financial Administration Act). Management letters are not made available to the Legislative Assembly or its select standing committees, nor are they required to be by the Auditor General Act.

Section 17 Reports

4.2.6 Under section 17 of the Auditor General Act, the Legislative Assembly and the Executive Council may ask the Auditor General to perform special duties. Whether or not those duties result in reports, and to whom the reports are issued, depends on the terms of the request. During the 1984-85 fiscal year, the Auditor General received no requests to perform special duties pursuant to section 17 of the Auditor General Act.

Audit Committee and the Select Standing Committee on Legislative Offices

4.2.7 Reports issued by the Auditor General under sections 19 and 20 of the Auditor General Act are tabled in the Legislative Assembly by the Chairman of the Select Standing Committee on Legislative Offices. Before being tabled, however, they are reviewed by an Audit Committee established under section 21 of the Auditor General Act. The members of this Committee, all of whom are appointed by Order in Council, are as follows:

Mr. Haughton G. Thomson, F.C.A.
Retired Partner
Deloitte Haskins & Sells, Chartered Accountants
Edmonton

Mr. Elvin A. Christenson, F.C.A.
Retired Partner
Thorne Riddell, Chartered Accountants
Edmonton

Mr. Robert Colborne
President
Pacific Western Transportation Limited
Calgary

His Honour Clare L. Liden
Assistant Chief Judge
Provincial Court of Alberta

Mr. Robert A. McLaughlin
Retired Systems Analyst
Edmonton

Mr. William G. Stephen, F.C.A.
Partner
Stephen Johnson, Chartered Accountants
Calgary

Honourable Louis D. Hyndman, Q.C.
Provincial Treasurer of Alberta

The Auditor General acknowledges the helpful and constructive contributions of the Audit Committee during the review stage of the annual report for the 1984-85 fiscal year.

Members of the Select Standing Committee on Legislative Offices during 1984-85 were as follows:

Dr. C.R. Elliott, M.L.A.	Chairman
Dr. D.J. Carter, M.L.A.	Deputy Chairman
Mr. D. Anderson, M.L.A.	
Dr. W. Buck, M.L.A.	
Mr. J. Gurnett, M.L.A. (replacing Mr. Notley)	
Mr. A. Hiebert, M.L.A.	
Mr. J.E. Miller, M.L.A.	
Mr. G. Notley, M.L.A. (Deceased)	
Mr. W. Purdy, M.L.A.	
Mr. J. Thompson, M.L.A.	

The Auditor General acknowledges the rapport with this Committee that has enhanced the Audit Office's accountability to the Legislature.

4.3 AUDIT ACTIVITIES AND RESPONSIBILITIES

Role of a Legislative Auditor

4.3.1 As explained in subsection 4.2 of this report, the Auditor General Act deals with the role of the Auditor General in terms of his reporting responsibilities. Only by inference, however, does it deal with what those reports should attempt to achieve and how the role of the Auditor General should impact the financial administration of the Province's affairs.

4.3.2 A major role of all auditors is to provide assurance that financial information is reliable. In the private sector, for example, auditors provide assurance to shareholders of corporations that the financial statements issued by management are fairly presented. Similarly, legislative auditors provide assurance to their legislative bodies that the financial and other accountability information issued by governments is fairly presented.

4.3.3 To appreciate the significance of a legislative auditor's role, it is necessary to understand the importance of accountability. In simple terms, accountability is the process by which governments are "held accountable" for complying with and not exceeding the authorities provided by their legislative bodies. These authorities may be primary authorities such as statutes, or subordinate authorities issued pursuant to primary authorities such as orders in council, regulations, ministerial orders, policy directives, corporation by-laws, contracts, agreements and administrative manuals. By providing authorities and requiring compliance with them, legislative bodies control the administration of their jurisdictions. Periodically, the individuals and entities that receive these authorities must report back on how the authorities were exercised. Naturally, the form of these reports will depend on the nature of the authorities provided.

4.3.4 Accountability reports not only show legislative bodies how the authorities they have issued were exercised, they also frequently provide a basis for future policy decisions. Hence, it is important that the information reported be accurate and fairly stated. The work of independent legislative auditors, therefore, adds credibility to accountability reports and provides assurance to legislators that their decisions are based on reliable information.

4.3.5 The Auditor General's role, in this regard, can be illustrated by describing the accountability process as it relates to the Province's annual expenditure Appropriation Acts. Each year, the Government of Alberta presents its expenditure budgets (estimates) for debate in the Legislative Assembly. Once the estimates are formally approved by the Legislature, they take the form of Appropriation Acts, and the Government and its administrators are responsible for their implementation. In this way, the Legislature delegates authority to the Government to disburse funds for the approved purposes, to manage resources in an economic and efficient manner, and to evaluate the effectiveness of the programs involved.

Together with this authority goes a responsibility to report back to the Legislative Assembly on how the funds and resources were administered.

4.3.6 The principle accountability information of a financial nature tabled in the Legislative Assembly is the annual Public Accounts of the Province. These are prepared by the Treasury Department and tabled by the Provincial Treasurer. Each set of financial statements contained therein includes a report by the Auditor General as to whether, in his opinion, the financial statements present fairly the financial position, results of operations and changes in financial position of the entity concerned, in accordance with an appropriate disclosed basis of accounting and whether that basis has been consistently applied. Because of his independent status and his position as an officer of the Legislature, the Auditor General's opinions add credibility to the accountability information contained in the Public Accounts.

4.3.7 Accountability information is also subject to scrutiny by the Select Standing Committee on Public Accounts. This all-party committee acts on behalf of the Members of the Assembly in conducting an in-depth examination of the Government's management and control of public resources. Here again, the Auditor General impacts the accountability process by issuing an annual report (this report) which may be used as a guide by the Select Standing Committee in its review of the Public Accounts and the activities of individual departments, Provincial agencies and regulated and revolving funds.

4.3.8 Adding credibility to accountability information, however, is only one of the functions of a legislative auditor. As a by-product of the audit work necessary to add this credibility, the auditor also advises financial managers on systems designed to strengthen internal control, to detect irregularities, to promote economy and efficiency and to control and administer resources. The auditor also provides assurance, or otherwise, to senior management of departments, funds and Provincial agencies as to the adequacy of their financial administration. Through his annual reports, he also provides similar assurance to the Legislative Assembly on the financial administration of the Province. In addition, there is little doubt that the knowledge that their work will be audited every year has a salutary effect on staff who might otherwise be tempted to misuse public monies.

Auditing Standards

4.3.9 Although the Auditor General Act prescribes the Auditor General's reporting responsibilities, it is silent as to the auditing standards that are appropriate to discharging those responsibilities. The Auditor General believes, however, that the work of his Office should adhere, as a minimum, to the contemporary auditing standards that apply to chartered accountants auditing in the private sector.

4.3.10 The Canadian Institute of Chartered Accountants (CICA) develops and publishes in its Members' Handbook recommendations that constitute generally accepted auditing standards, as they apply within Canada. These standards are intended to apply mainly to audits of financial statements of profit oriented enterprises. Since most government entities do not fall within this description there are, in effect, no generally accepted standards for public sector auditing.

4.3.11 In 1981, the CICA established a Public Sector Accounting and Auditing Committee (PSAAC) to address and publish statements and recommendations on public sector accounting and auditing issues. PSAAC has stated that its auditing recommendations will supplement the CICA Handbook's auditing recommendations to the extent necessary to recognize special circumstances in audits of financial statements of federal, provincial and territorial government entities. It will also publish recommendations to address the wider audit-related responsibilities of legislative auditors in these jurisdictions.

4.3.12 In May 1985, PSAAC issued two Public Sector Auditing Statements entitled "Auditing in the Public Sector" and "Audit of Financial Statements in the Public Sector".

4.3.13 "Auditing in the Public Sector" acknowledges the special circumstances and different environment encountered by public sector auditors. It notes, for example, that whereas most private sector entities employ resources to generate profits, most public sector entities spend to achieve a variety of social and economic goals. For this reason, conventional financial statements, as developed for profit oriented enterprises, may be unable to provide a comprehensive measure of a public sector entity's success. Rarely will such statements be able to provide the information that legislators may require relating to, for example:

- compliance with legislative and related authorities,
- accounting for and safeguarding assets,
- adequacy of management control systems,
- economy and efficiency in the administration of resources, and
- effectiveness of programs.

These differences can have a fundamental impact on the way in which public sector auditors approach their duties and report their findings. In particular, the legislation in some jurisdictions requires the auditor, rather than the government, to report on matters of this nature. Regardless of the prevailing legislation, however, the exposure draft encourages public sector auditors to adhere to established rules of professional conduct concerning the public interest in discharging their responsibilities.

4.3.14 "Audit of Financial Statements in the Public Sector" suggests that although the reporting objectives for financial statements of non-profit oriented entities may differ substantially from

those of profit oriented entities, nevertheless, the audit objectives for both types of audit are similar. Both are designed to express an opinion on whether the financial statements are presented fairly in accordance with an appropriate disclosed basis of accounting. Hence, since readers of all financial statements are entitled to a uniform quality of audit assurance, audits of public sector financial statements should be conducted in accordance with the same generally accepted auditing standards that apply to audits of private sector entities.

In addition and where appropriate, auditors of public sector financial statements should keep in mind the auditing recommendations in the CICA Handbook that provide guidance for adhering to generally accepted auditing standards.

4.3.15 The statement also notes that auditors of non-profit oriented public sector entities need to assess whether the accounting policies followed in preparing and presenting financial statements are appropriate in the circumstances. In this regard, it acknowledges that generally accepted accounting principles that are appropriate for profit oriented entities may often be inappropriate for non-profit oriented public sector entities. It also notes that where public sector financial statements are presented in accordance with accounting policies dictated by legislation, and in the auditor's opinion the application of those policies could materially mislead a reader of the statements, then the auditor has a professional responsibility to express a reservation of opinion on the financial statements.

4.3.16 In February 1985, PSAAC issued (and has subsequently re-issued) an auditing exposure draft entitled "Auditing for Compliance with Legislative and Related Authorities". This exposure draft and subsequent amendments thereto defines and discusses compliance auditing and suggests auditing standards for auditors who:

(a) express an opinion on whether transactions are carried out in compliance with specified legislative authorities, or,

(b) express an opinion on whether the transactions that were examined complied with the legislative authorities against which they were audited, and/or,

(c) report observed instances of non-compliance with legislative authorities.

In Alberta, the Auditor General's responsibilities respecting compliance with legislative authorities fall mainly within areas of (b) and (c) above. In most material respects, the Audit Office has for many years adhered to the auditing recommendations and suggestions contained in the aforementioned auditing statements and exposure draft.

4.3.17 Before leaving the subject of auditing standards, and to avoid possible misunderstandings, it may be appropriate to elaborate on the application of generally accepted auditing standards to the detection of fraud and error.

In an examination made in accordance with generally accepted auditing standards, an auditor fulfills his professional responsibility by complying with those standards. When conducting an audit in accordance with generally accepted auditing standards, an auditor seeks reasonable assurance that fraud and error, which may be material to the financial statements or other accountability information, have not occurred or that, if they have occurred, they are corrected and appropriately reported. When planning his examination, the auditor is responsible, within the inherent limitations of the auditing process, for considering the risk of fraud and error and being alert for circumstances that might cause him to suspect their existence. If at any time his suspicions are aroused, the auditor must perform additional procedures to confirm or dispel those suspicions. Beyond that, the auditor has no separate or additional responsibility for detecting fraud and error.

It must be realized, therefore, that an audit performed in accordance with generally accepted auditing standards may not detect, and is not primarily designed to detect, every instance of fraud or error. The inherent limitations in the audit process are virtually unavoidable. An auditor would not have the resources to examine the circumstances behind and the support for every transaction recorded. Even if he had, he could not be sure that there were no unrecorded transactions. Furthermore, collusion between auditee personnel and outside parties, or among management or employees could result in apparently genuine but falsified transactions and documents being accepted by the auditor.

Accounting Principles

4.3.18 Financial statements cannot provide meaningful information unless people who use them are familiar with the accounting policies and reporting practices employed in their preparation. In the private sector, generally accepted accounting principles are recognized by authoritative support and precedent as the accounting principles that apply to profit oriented entities. At the present time, however, no such accounting principles are generally accepted as applying to non-profit oriented public sector entities.

4.3.19 A CICA research study published in 1980 called attention to the wide diversity of accounting principles employed by public sector entities in Canada. It also recommended that steps be taken to encourage greater standardization of financial reporting practices. In 1983, PSAAC announced that over a period of time, it would issue statements and make recommendations aimed at improving and harmonizing public sector accounting and reporting at the federal, provincial and territorial government levels.

The first Public Sector Accounting Statement entitled "Disclosure of Accounting Policies" was issued in September 1983. The recommendations it contained were as follows:

— A clear and concise description of all significant accounting policies of a reporting entity should be included as an integral part of its financial statements.

— As a minimum, disclosure of information on accounting policies should identify and describe:

(a) the reporting entity and, where applicable, the method of consolidation or combination;

(b) the basis of accounting used in the financial statements; and

(c) the specific accounting policies selected and applied to significant assets, liabilities, revenues and expenditures.

— Whenever there is a change in an accounting policy that has a material effect in the current period or may have a material effect in subsequent periods, the nature of the change, the reason for it and its effect on the financial statements of the current period should be disclosed in a separate note.

4.3.20 In all material respects, the financial statements of Province of Alberta entities comply with these recommendations, and they have done so for many years.

4.3.21 In November 1984, a Public Sector Accounting Statement entitled "Objectives of Government Financial Statements" was issued. Its objective was to propose consistent and appropriate accounting principles and reporting standards for summary (ie. consolidated) financial statements for governments.

To this end, the statement proposed that summary financial statements for governments should satisfy the following five objectives:

(1) Financial statements should communicate reliable information relevant to the needs of those for whom the statements are prepared, in a manner that maximizes its usefulness. As a minimum, this requires information that is clearly presented, understandable, timely and consistent.

(2) Financial statements should provide an accounting of the full nature and extent of the financial affairs and resources for which the government is responsible including those related to the activities of government agencies and enterprises.

(3) Financial statements should demonstrate the accountability of a government for the financial affairs and resources entrusted to it.

(i) Financial statements should provide information useful in evaluating the government's performance in the management of financial affairs and resources including a comparison of the actual results against the fiscal plan and prior period results.

(ii) Financial statements should provide information useful in assessing whether financial resources were administered by the government in accordance with the limits established by the appropriate legislative authorities.

(4) Financial statements should account for the sources, allocation and use of the financial resources required by the government in the period.

(i) Financial statements should account for all government expenditures by nature and purpose.

(ii) Financial statements should account for all government revenues by source and type.

(iii) Financial statements should account for the extent to which revenues were sufficient to meet expenditures.

(iv) Financial statements should show how government financed its activities in the period and how it met its cash requirements.

(5) Financial statements should present information to display the state of government's finances.

(i) Financial statements should present information to show the government's financial condition including, as a minimum, its liabilities and financial assets.

(ii) Financial statements should provide information that is useful in evaluating the government's ability to finance its activities and to meet its liabilities and commitments.

Alberta was one of the first provinces to publish summary financial statements that encompass a large majority of the government's operations and entities. In the opinion of the Auditor General, the consolidated financial statements of the Province satisfy, in most material respects, the PSAAC objectives listed above. Moreover, the Province of Alberta has formally adopted these objectives by including them in the Treasury Department's Manual of Financial Administration.

4.3.22 In the interests of fair and consistent presentation, financial statements of Alberta's Provincial entities are prepared either in accordance with generally accepted accounting principles, or alternatively, in accordance with some other appropriate basis of accounting. This recognizes that for some government entities, departures from generally accepted accounting principles can be unavoidable and even desirable. This is because accounting principles that are appropriate to profit oriented enterprises may be inappropriate to non-profit oriented enterprises.

4.3.23 This form of presentation has been adopted for all financial statements other than those of the Province of Alberta Consolidated and the General Revenue Fund where the exceptions to generally accepted accounting principles are so numerous and significant that it is considered appropriate to omit reference to generally accepted accounting principles. Nevertheless the notes to these financial statements headed "Significant Accounting Policies and Reporting Practices" explain the basis of accounting used.

The Audit Office exercises professional judgement in determining the suitability of employing accounting policies and practices at variance with generally accepted accounting principles. In all financial statements prepared as at March 31, 1985, or such other accounting periods ended within the year ended March 31, 1985, the disclosed departures from generally accepted accounting principles are considered by the Audit Office to be appropriate in the circumstances. However, the reader's attention is drawn to the recommendations contained in subsection 3.5 of this report relating to certain accounting policies of general application.

4.3.24 The membership of PSAAC includes representatives from various levels of the federal and provincial governments, from legislative auditors and from private sector firms of chartered accountants. The Auditor General of Alberta has been a member of PSAAC since 1982. In 1983 he became chairman of its Western Section (the section dealing with public sector auditing), and in September 1985 he became chairman of PSAAC.

Audit Strategy

4.3.25 The Audit Office has developed an audit strategy that integrates its various auditing activities in a manner that reflects the relative importance of the Auditor General's reporting responsibilities.

The most important of these responsibilities derive from sections 18, 19 and 28 of the Auditor General Act, and are:

(i) to report on the annual financial statements of all departments, funds and Provincial agencies in accordance with generally accepted auditing standards, and

(ii) to report to management and, where appropriate, to the Legislative Assembly:

— observed instances of non-compliance with legislative authorities,

— situations where it is observed that public assets are inadequately accounted for or improperly safeguarded,

— instances where it is observed that accounting systems (including management control systems relating to economy, efficiency and effectiveness) are absent, inadequate or not being complied with, and

— situations where it is observed that accounting policies and reporting practices are inappropriate or inadequate.

4.3.26 Section 18 of the Act requires all financial statements to be audited every year. The work necessary to report on these statements in accordance with generally accepted auditing standards is considerable and consumes a large portion of the Audit Office's resources each year.

Sections 19 and 28 of the Act, require the Auditor General to report systems deficiencies, legislative non-compliance or inadequately safeguarded public assets, if they are observed and if the Auditor General considers them to be significant. These sections of the Act do not require the Audit Office to examine each year every area, circumstance or system that could reveal problems of this nature.

4.3.27 An audit in accordance with generally accepted auditing standards is designed primarily to attest to the fair presentation of financial statements. It is not designed to find the various irregularities reportable under section 19 and 28, though in practice some may come to the auditor's attention as a by-product of the work performed. The Auditor General believes, however, that a legislative expectation exists for the work of his Office to extend beyond seeking matters reportable under sections 19 and 28 only as a by-product of adhering to the minimum requirements of generally accepted auditing standards. For this reason, annual financial audits designed primarily to attest to the fair presentation of financial statements are augmented in the following manner:

— At the beginning of each audit, significant financial and administrative authorities that impact the entity's operations are identified. Then during the audit, all transactions examined as part of the financial audit are also examined to determine whether or not they comply with the identified authorities. Any observed instances of non-compliance with prevailing authorities can thus be reported to management and, where appropriate, to the Legislative Assembly.

— All significant financial control systems are subjected to preliminary evaluation procedures. This involves documenting the systems and reviewing their design and objectives to identify apparent strengths and weaknesses. Where the auditor wishes to rely on the key controls thus identified, they are compliance tested to determine whether or not they are working effectively. Where, however, the effective operation of these controls is not relied upon to support the audit opinion on the financial statements, the controls may be compliance tested every few years on a rotational basis. In addition, many less significant financial control systems are also subjected to preliminary evaluation procedures.

It is generally acknowledged that an auditor engaged to report on financial statements has no responsibility to examine internal controls beyond what is needed to determine the nature, extent and timing of other auditing procedures. Hence, the scope of the Audit Office's activity as described above relating to financial systems exceeds the minimum requirements of generally accepted auditing standards. These augmentations, however, enable the Auditor General to report more extensively to management and, where appropriate, to the Legislative Assembly apparent weaknesses in financial control systems and instances of non-compliance with major financial controls.

— Management control systems are audited on a selective basis. The main purpose of auditing management control systems is to help management improve the systems it has to ensure that the objectives of the enterprise are achieved. This, however, should not be interpreted as auditing Government decisions and Cabinet policies; these are correctly beyond the scope of a legislative auditor's mandate.

Each year, a number of management control systems are chosen for audit. The scope of the annual financial statement audits of the entities responsible for the chosen systems is then expanded as necessary. Integrating the work in this way allows this type of auditing to be performed within the traditional audit structure, and allows observed system weaknesses to be reported to management and, where appropriate, to the Legislative Assembly in the normal way.

4.3.28 The Audit Office has developed several unique auditing methodologies and techniques to facilitate the conduct of its work. This is because the extended systems auditing strategies outlined above often present unique auditing challenges particularly where, as is usually the case, the audit entity makes extensive use of computers and complex data processing systems to maintain records and monitor the delivery of services and programs.

The controls in these systems, and the often huge volume of information contained in the files processed by the systems, represent major sources of audit evidence. Enormous benefits and opportunities are available to auditors with the training and tools necessary to tap these sources. For example, by using the computer as an audit tool, certain characteristics of many thousands of transactions can be checked in less time than it takes to check a few dozen transactions using traditional auditing methods.

4.3.29 To exploit these benefits and opportunities more fully, the Audit Office has developed a new generalized audit software package called PROBE. An important feature of PROBE is that it can be used effectively by auditors who have only modest training and experience with computers and electronic data processing. PROBE is an audit tool that facilitates the auditor's examination and review of data files and systems. Furthermore, using interactive display terminals which access the Audit Office's own computer, each auditor can use PROBE to prepare, verify and initiate computer runs to examine and process data, simulate and test controls, extract and evaluate samples, submit data to regression analysis techniques, and perform many other audit-related procedures.

PROBE provides the auditor with powerful technical support through interactive dialogue at computer terminals. It allows the auditor to process data files from virtually any make and model of computer encountered, without leaving the terminal and usually without assistance from data processing personnel. This greatly enhances the efficiency and effectiveness of the audit and, because PROBE runs on the Audit Office's own computer, reduces significantly the risk of outside interference in the audit process.

4.3.30 A more specialized computer assisted auditing technique is used to obtain ongoing audit assurance that the Province's central expenditure processing system (A.F.I.S.) is operating satisfactorily. The Audit Office has developed a system, operating on its own computer, which simulates major elements of A.F.I.S. By comparing daily the simulated results with the output of A.F.I.S., assurance (or otherwise) is obtained that A.F.I.S. and the controls it contains are operating satisfactorily, and that its output is reliable.

4.3.31 Many of the techniques adopted by the Audit Office emphasize the prevention of errors and irregularities, rather than attempting to be purely detective. This is because the Auditor General believes that diagnosing and eliminating weaknesses in accounting and management control systems will minimize the potential for loss and waste of public monies and resources.

It is recognized, however, that no system is infallible. Accordingly, efforts are made to develop audit methodologies that facilitate the early detection of any major errors or irregularities if they occur. For example, it is believed that normal post-auditing methods are unacceptable for major departmental expenditure systems because any errors and irregularities may not be found and corrected until a considerable time after they occur. In view of the substantial amounts of funds

that are processed by these systems, uncorrected irregularities could very quickly reach serious proportions.

It is to counter problems of this kind that the Audit Office has developed a methodology which it has designated "concurrent auditing". Concurrent auditing involves the subjection to audit examination of sample transactions on an ongoing and "shortly after the fact" basis. It thereby optimizes the opportunity for early detection of errors and irregularities in transactions and their related processing systems which otherwise may not be discovered until well after any resultant losses have occurred.

4.4 ORGANIZATION OF THE AUDIT OFFICE

4.4.1 The Audit Office is administered by the Office Management Committee, the members of which are the Auditor General and four Assistant Auditors General. This Committee sets, and monitors the achievement of the policies designed to discharge the Auditor General's legislatively prescribed responsibilities.

The Office has two main operating divisions. These are the Audit Division and the Administration Division.

The Audit Division

4.4.2 The Audit Division is administered by three Assistant Auditors General, each of whom is responsible for approximately one third of the audits performed by the Audit Office.

Audit staff below the level of Assistant Auditor General are divided into five audit groups. Each group comprises three Audit Principals and varying numbers of Audit Managers, Supervisors, Seniors and Assistants. Each group also has an EDP audit advisor trained in advanced computer auditing techniques. Using the resources within his group, each Audit Principal is responsible to one or more Assistant Auditors General for planning, performing and reviewing the various audits assigned to him. This responsibility structure is designed to deploy the Audit Office's resources in an economic and efficient manner.

The Administration Division

4.4.3 The Administration Division is administered by an Assistant Auditor General and provides a variety of administrative services to the rest of the Audit Office. Its most important function, however, is monitoring the implementation of the policies and directives issued from time to time by the Office Management Committee.

The Division is responsible for the selection and hiring of staff, the personnel function, the time recording system, and co-ordinating the budgetary and accounting functions. It exercises quality control over all audit reports, financial statements, management letters and other output of the Audit Office. This includes monitoring for adherence with established policies and standards and maintaining the Audit Office Staff Manual.

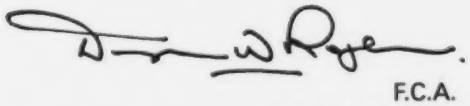
The professional practices and professional development functions are also performed by the Administration Division. These include establishing practice standards and policies, administering the Office's internal practice review program, maintaining the Office library, and developing and presenting courses on audit-related subjects.

4.4.4 The Audit Office has continued with its policy of utilizing the services of private sector chartered accountants. These firms act as agents of the Auditor General under the provisions of section 10 of the Auditor General Act. The contributions of agents in supplementing the staff resources of the Audit Office are gratefully acknowledged. Agents acting in respect of the fiscal year ended March 31, 1985 were as follows:

Arthur Andersen & Co.
Bailey Foulkes-Jones Lundell
Bevan, Hagen, Halbert and Ginet
Carpenter & Company
Clarkson Gordon
Collins Barrow
Coopers & Lybrand
Cuthbertson Stainthorpe Sandall
Deloitte Haskins & Sells
Ernst & Whinney
Hudson & Company
Johnston, Morrison, Hunter & Co.
MacKay & Partners
Matthew Craig Watts & Davies

Mills Macleod Unrau
Pannell Kerr Forster
Peat, Marwick, Mitchell & Co.
Price Waterhouse
Thorne Riddell
Touche Ross & Co.
Young, Parkyn, McNab & Co.
Watkinson, Hanhart, Duda, Dorchak
Vennard Johanneson & Co.

4.4.5 The audited financial statements of the Office of the Auditor General are reproduced in section 26 of Volume II of the Public Accounts 1984-85 in accordance with section 30(4) of the Auditor General Act.



F.C.A.
Auditor General

Edmonton, Alberta
February 13, 1986

APPENDIX I

REPORT TO THE PUBLIC ACCOUNTS COMMITTEE

OF THE LEGISLATURE OF ALBERTA

REGARDING THE

RECOMMENDATIONS OF

THE REPORT OF THE AUDITOR GENERAL OF MARCH 31, 1984

Submitted by the
Provincial Treasurer
on behalf on the
Executive Council
December 1985

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30. TIMELY FINANCIAL REPORTING

1. HOSPITALS AND MEDICAL CARE — CAPITAL FUNDING FOR HOSPITALS
(Section 2.3.1)

Recommendation

It is recommended that the Department of Hospitals and Medical Care, the Foothills Provincial General Hospital and the Provincial Cancer Hospitals comply fully with authorities and approved accounting policies to ensure that goods and services are recorded as expenditures in the fiscal years in which they are received and that funding is claimed only in compliance with the provisions of relevant authorities.

Comments

The Department will comply with authorities and approved accounting policies by recording expenditures in the fiscal years in which the goods or services are received. It will also monitor to see that the hospitals only claim funding in compliance with the provisions of relevant authorities. A letter setting out the Department's position was also sent to each hospital.

2. HOSPITALS AND MEDICAL CARE — CAPITAL FUNDING FOR HOSPITALS
(Section 2.3.1)

Recommendation

It is recommended that the Department of Hospitals and Medical Care establish consultative arrangements — including liaison with the Treasury Department — to help hospitals resolve problems in connection with funding commitments that lapse at fiscal year-ends.

Comments

Alternatives are being examined by the Department in order to provide ways to deal with year-end "lapsing" problems and the Department will be consulting with hospitals and Treasury in order to bring about a resolution.

3. SALARY PAYROLL SYSTEM — AUTHORITY FOR PAYMENTS
(Section 2.3.2)

Recommendation

It is recommended that departments and Provincial agencies that use the Province's central salary payroll system ensure that requisite approvals are obtained for all payments, as required by chapter 7 of the Treasury Department's Manual of Financial Administration.

Comments

The Controller has advised senior financial officers that salary payroll transactions must have proper approvals. Also the Office of the Controller will continue to conduct selected reviews of payroll transactions.

4. ENERGY AND NATURAL RESOURCES — FREEHOLD MINERAL RIGHTS TAX
(Section 2.3.4)

Recommendation

It is recommended that the Department of Energy and Natural Resources modify the part of its Mineral Tax System used to calculate freehold mineral rights tax to ensure that tax is calculated and billed annually in accordance with the provisions of Alberta Regulation 12/84.

Comments

Adjusted tax statements have been issued to reflect the recommendation of the Auditor General. These adjustments did not materially affect the total tax.

5. HOSPITALS AND MEDICAL CARE — CHARGING EXPENDITURES TO PROPER FISCAL YEAR
(Section 2.3.5)

Recommendation

It is recommended that the Department of Hospitals and Medical Care exercise more care in future to ensure that expenditures are charged against funds appropriated for the fiscal year in which the expenditures were incurred.

Comments

The Department recognizes and accepts the need to charge expenditures against funds appropriated in the same fiscal year as the expenditures were incurred.

6. CONSUMER AND CORPORATE AFFAIRS — LOTTERY OPERATIONS
(Section 2.3.10)

Recommendation

It is recommended that:

(a) in order to comply with section 19(1)(b) of the Financial Administration Act, all proceeds collected from lottery operations be deposited in the General Revenue Fund; and that all payments of costs of lottery operations and all payments to be regarded as distribution of the net profits from those operations be made pursuant to the authority of an appropriation of the legislature, or,

(b) if the above recommendation is regarded as impractical, consideration be given to revising the Interprovincial Lottery Act to permit the collecting, handling and distributing of lottery proceeds through a statutory fund or provincial agency or by some other method that would constitute an exception within section 19(1)(b) of the Financial Administration Act.

It is further recommended that consideration be given to revising the Interprovincial Lottery Act to indicate that this statute is based on the authority of section 190 of the Criminal Code of Canada.

Comments

In view of conflicting legal opinions on the status of lottery proceeds under the Interprovincial Lottery Act, the Government will consider amendment of that Act to establish clearly a "Regulated Fund" to be administered by the Minister responsible for lotteries, or an agent appointed by the Minister, into which lottery proceeds will be deposited and from which lottery expenses and grants to provincial associations will be paid as directed by the Minister.

Coincident with consideration of the above, consideration will be given to the need for a reference to section 190 of the Criminal Code of Canada.

7. MUNICIPAL AFFAIRS — METIS POPULATION BETTERMENT TRUST ACCOUNT
(Section 2.3.11)

Recommendation

It is recommended that as soon as practicable, action be taken to resolve the various problems relating to non-compliance with the legislative authorities pertaining to the establishment and administration of the Metis Population Betterment Trust Account.

Comments

The Government recognized the need to update the Metis Betterment Act and a joint Metis Government Committee was formed in 1982 under the chairmanship of Dr. Grant MacEwan. The Committee submitted its report in July 1984, but acknowledged that its deliberations have not been detailed or conclusive enough to allow for the preparation of new legislation. Further, the Committee indicated that, although there were issues to be addressed by the Government, the primary focus of further discussion and action rested with the Metis, who now have plans to address the major issues over the next six months.

The Government is reviewing the nature, form and timing of new legislation and is encouraging more discussion by the Metis on its content.

8. PUBLIC WORKS, SUPPLY AND SERVICES — NON-COMPLIANCE WITH PUBLIC WORKS ACT
(Section 2.3.12)

Recommendation

It is recommended that the Department of Public Works, Supply and Services take steps to ensure that, in future, it complies with section 12(1) of the Public Works Act when administering public works contracts.

Comments

The Department has modified its procedures to guard against recurrence of the instance in which a payment was made to a contractor before the contract was signed.

9. NORTHERN ALBERTA INSTITUTE OF TECHNOLOGY — FINANCING PURCHASE OF PATRICIA CAMPUS
(Section 2.3.13)

Recommendation

It is recommended that the Northern Alberta Institute of Technology take steps to curtail the ongoing loss of public money arising from the financing arrangement entered into with the Institute's bankers to finance the acquisition of Patricia Campus.

Comments

The Northern Alberta Institute of Technology has arranged to discharge this loan and thus eliminate the additional charges on this transaction.

10. NORTHERN ALBERTA INSTITUTE OF TECHNOLOGY — APPROVAL FOR BORROWING
(Section 2.3.13)

Recommendation

It is recommended that, in light of apparent uncertainties in the legislation governing the type of borrowings by technical institutes that require Lieutenant Governor in Council approval, consideration be given to seeking legislation amendments to clarify the wishes of the Legislature.

Comments

Post-secondary institutions have been reminded of the restrictions on their power to borrow money.

11. ALBERTA HOSPITAL PONOKA — FINANCIAL CONTROL
(Section 2.4.1)

Recommendation

It is recommended that Alberta Hospital Ponoka immediately develop and implement appropriate accounting controls and financial reporting systems.

Comments

Alberta Hospital Ponoka employed a new Director of Finance in July 1984 and since then has instituted those internal control measures deemed necessary by the Auditor General and the Director of Finance. Accurate and timely financial statements are now being produced on a monthly basis and appropriate accounting controls are in place.

12. ALBERTA RESEARCH COUNCIL — FINANCIAL CONTROL
(Section 2.4.2)

Recommendation

It is recommended that the Alberta Research Council continue with the action necessary to eliminate the remaining financial control problems in its fixed assets, research projects, project contracts, inventories and expenditure systems.

Comments

The Alberta Research Council continues to assign a high priority to the resolution of its financial control problems. Most of the objectives of a three year plan have been achieved and a new plan has been prepared which incorporates the purchase of three software packages: general ledger, accounts payable and budgetary control. These software packages may be operational on 1-Apr-86, depending on the availability of qualified and trained employees. This should resolve most of the problems outlined in the Auditor General's report. Before taking further action, the Council will consider the risks associated with the remaining problems identified by the Auditor General and the cost of implementing controls to eliminate them.

13. ENERGY AND NATURAL RESOURCES — ROYALTY REVENUE SYSTEM
(Section 2.4.3)

Recommendation

It is recommended that the Department of Energy and Natural Resources implement the Department's newly developed system to record, monitor and control royalty revenues from natural gas and natural gas by-products. The Department should also continue to bring up to date the verification of its existing data.

Comments

The newly developed System for Natural Gas and Natural Gas By-Products Royalties has been implemented effective with January 1, 1985 production. This System is designed to be fully operational by the middle of 1986, and will significantly improve the Department's control of Natural Gas and Natural Gas By-Products Royalty Revenue.

A special project team is in the process of bringing prior years' gas royalty verification up-to-date and will complete their work by March 31, 1986.

14. SOCIAL SERVICES AND COMMUNITY HEALTH — VOCATIONAL REHABILITATION OF DISABLED PERSONS
(Section 2.4.5)

Recommendation

It is recommended that the Department of Social Services and Community Health issue standards and guidelines governing the preparation and submission to the Department of budgets and audited financial statements for vocational training and rehabilitation agencies. The Department should also have adequate systems for monitoring compliance with such standards and guidelines, and for ensuring that grants paid to these agencies are in accordance with established criteria.

Comments

The Department will have in place, by the 1986-87 fiscal year, finalized guidelines for standardized reporting formats and consistent accounting treatment of various expenditure categories. These guidelines will assist the Regions in monitoring the agencies' financial activities in conjunction with the assessment of the program.

15. SOCIAL SERVICES AND COMMUNITY HEALTH — PROVINCIAL LABORATORY OF PUBLIC HEALTH
(Section 2.4.5)

Recommendation

It is recommended that the Department of Social Services and Community Health proceed with its efforts to resolve the uncertainties concerning the operations and legislative status of the Provincial Laboratory of Public Health. Pending resolution of the uncertainties, the Department should consider formally accepting responsibility for the Laboratory's operations.

Comments

The Department and the University of Alberta have agreed to continue the funding and management arrangements, pending the findings of the Review Committee. Changes, provided enabling legislation is passed during the 1986 spring session of the Legislature, will be implemented effective July, 1986.

16. SOCIAL SERVICES AND COMMUNITY HEALTH — ALBERTA DENTAL ASSOCIATION
(Section 2.4.5)

Recommendation

It is recommended that the Department of Social Services and Community Health establish procedures and obtain the information it needs to ensure that it pays the Alberta Dental Association only for dental services that are valid, eligible and reasonable. In addition, future contracts negotiated with the Association should define more precisely the administrative

costs that are eligible for reimbursement, and the manner in which monies advanced to the Association shall be managed and accounted for.

Comments

Negotiations currently under way with the Alberta Dental Association will ensure that deficiencies identified by the audit are remedied. Any new agreement will specify:

1. The maximum amount of administrative costs payable.
2. The definition of administrative services.
3. That the outside auditors report on compliance with the contracts.

17. SOCIAL SERVICES AND COMMUNITY HEALTH — CHILD WELFARE PAYMENT AND INFORMATION SYSTEM
(Section 2.4.5)

Recommendation

It is recommended that the Department of Social Services and Community Health review and where necessary improve the Child Welfare Payment and Information System to ensure that:

— it meets the Department's information needs, including providing explanations for variances between budgeted and actual costs,

— case-workers, administrative staff and case files comply with the requirements of the Department's Child Welfare Program Manual, and

— that payments for goods and services supplied are properly authorized, documented and not duplicated.

Comments

— The Child Welfare Information System is currently being upgraded to provide suitable program and financial information to management. This will include a detail client cost profile to enable comparisons to be made between projected and actual costs.

— Child Care Workers have been reminded to abide by the requirements of the program manual. The monitoring unit being established in Service Delivery will strengthen the review activities to ensure compliance with the different program manuals.

— Procedures are in place to ensure that payments for goods and services supplied are properly authorized, documented and not duplicated.

18. TRANSPORTATION — FINANCIAL CONTROL
(Section 2.4.7)

Recommendation

It is recommended that the Department of Transportation continue with efforts to improve its financial controls and accounting systems.

Comments

The Department will continue to correct the noted deficiencies through reviewing operating procedures and continued development of a computerized financial reporting and control system.

19. HOSPITALS AND MEDICAL CARE — HEALTH CARE INSURANCE FUND
(Section 2.4.9)

Recommendation

It is recommended that the Department of Hospitals and Medical Care establish procedures to ensure that the Finance and Administration Division of the Department is actively involved in all revisions or additions to information processing systems of the Health Care Insurance Fund that have accounting or financial implications. In addition, procedures should be established requiring:

— regular reviews of the Fund's reports and records to monitor financial transactions and accounting balances so that unusual situations and fluctuations can be identified without delay,

— production each month of receivable trial balances and prompt reconciliation of such trial balances to the related general ledger accounts, and

— retention of sufficient documentation to support reconciliations, transactions and adjusting entries related to the billing, collection, control and recording of health care premium revenue.

Comments

Procedures have been established to ensure the involvement of the Finance and Administration Division, as well as all other interested Divisions, in revisions or additions to the information processing systems of the Health Care Insurance Fund.

A "Registration, Eligibility and Premiums" system development project is being undertaken to address the production of adequate reports. In the meantime, where possible, comparative manual reports will be used to monitor financial transactions and accounting balances.

Monthly receivable trial balances are now prepared and reconciliations carried out.

Greater care will be taken to see that sufficient documentation is retained in the future to support reconciliations, transactions and adjusting entries related to the billing, collection, control and recording of health care premium revenue.

20. HOSPITALS AND MEDICAL CARE — HEALTH CARE INSURANCE FUND
(Section 2.4.9)

Recommendation

It is recommended that the Department of Hospitals and Medical Care take action to ensure that the computerized systems of the Health Care Insurance Fund are operated, controlled and managed by properly trained and knowledgeable staff and that systems changes are made only after all implications have been considered. In particular, the Systems and Data Processing Branch should ensure that:

— documentation is available to provide staff with comprehensive and current information on the operating procedures and features of all computerized systems,

— all divisions of the Department that have responsibilities relating to the Health Care Insurance Fund receive prior notification of proposed system changes. This would enable concerns and implications that may not be readily apparent to staff responsible for making the changes to be raised and considered before the changes are made,

— all system changes are fully documented.

In addition, there should be sufficient co-ordination between the Systems and Data Processing Branch and the users of the various systems to ensure that:

— staff changes are made in a controlled and systematic manner so that, wherever possible, duties and responsibilities are assigned only to staff with sufficient training and competence to discharge them,

— conversion procedures and details of control totals and reconciliations are fully documented and retained.

Comments

The Department has taken action to ensure that the computerized systems of the Health Care Insurance Fund and all processes interfacing with these systems are operated, controlled and managed by the most knowledgeable and best trained people available and that all possible implications are considered before making changes.

Proper documentation is a requirement of all new systems development. However, since many of the current systems are to be replaced, the Department will not devote much time to document these existing systems.

Greater care will be taken to see that all system changes are fully documented and available to staff. It will be one of the project control items.

Various committees, user groups and specification groups with representatives from all divisions, have been established to ensure consideration of all concerns and implications before making system changes.

The Department is attempting to introduce changes in a controlled manner and at a pace that can be managed by existing staff, both as to numbers and capabilities, and is trying to minimize frequent changes in employees' assignments.

The Department will endeavour to document conversion procedures fully and properly balance and reconcile, with control totals, all conversions. Test and conversion documentation, output and working papers will be retained for a proper time.

21. CONSOLIDATED CASH INVESTMENT TRUST FUND — LEGISLATIVE AUTHORITY FOR PROVINCIAL AGENCIES
(Section 2.4.11)

Recommendation

It is recommended that, where appropriate, Provincial agencies be granted legislative authority to allow them the option of utilizing the services of the Consolidated Cash Investment Trust Fund to maximize investment yield while maintaining liquidity of funds surplus to immediate needs.

Comments

The Government concurs with the recommendation. Where appropriate, Provincial agencies will be granted legislative authority to allow them the option of utilizing the services of the Consolidated Cash Investment Trust Fund to maximize investment yield while maintaining liquidity of funds surplus to immediate needs.

22. PENSION ADMINISTRATION — ACCOUNTING AND FINANCIAL CONTROL
(Section 2.4.15)

Recommendation

It is recommended that the Treasury Department continue to eliminate the remaining accounting and financial control deficiencies in the operations and accounting records of the Pension Administration.

Comments

Treasury is in the process of implementing a new computer system to handle pension administration. When implemented, the remaining control deficiencies will be eliminated.

23. WORKERS' COMPENSATION BOARD — DEFICITS POLICY
(Section 2.4.17)

Recommendation

It is recommended that The Workers' Compensation Board continue with its efforts to establish a formal policy governing the period over which deficits are to be recovered and the way in which class deficits should be recovered during that period.

Comments

In 1984, the Board completed an overall Financial Review project and, as a consequence, adopted a formal deficit recovery policy in May, 1985.

24. WORKERS' COMPENSATION BOARD — FINANCIAL CONTROL
(Section 2.4.17)

Recommendation

It is recommended that The Workers' Compensation Board continue with its efforts to eliminate the weaknesses identified during past audits in its financial control and accounting systems.

Comments

The Board had made further improvements in its financial control and accounting systems to eliminate identified weaknesses. Additional progress is expected to be made in the current year.

25. AGRICULTURE — ERROR IN ANNUAL REPORT
(Section 2.5.2)

Recommendation

It is recommended that in future, the Department of Agriculture take care to ensure that financial information included in its annual reports tabled in the Legislative Assembly is accurate and consistent with information published in the Province's public accounts. The Audit Office is willing to review financial information contained in Departmental annual reports before such reports are printed.

Comments

The Department will take care to ensure that, in the future, financial information included in its annual reports tabled in the Legislative Assembly is accurate and consistent with information published in the Province's public accounts.

26. MANPOWER — ACCURACY OF YEAR-END ACCRUALS AND EXPENDITURES
(Section 2.5.3)

Recommendation

It is recommended that the Department of Manpower ensure that year-end accruals and Departmental expenditures are reported accurately in the Public Accounts of the Province.

Comments

The Department will ensure that year-end accruals and departmental expenditures are reported accurately.

27. PENSION LIABILITY — UNFUNDED
(Section 2.5.4)

Recommendation

It is recommended that consideration again be given to reflecting the unrecorded liability arising from the various pension plans administered and guaranteed by the Province as a liability in the financial statements of the Province. The accounting method used to implement this should incorporate charging all pension costs to the entities and programs that benefit therefrom. Furthermore, if the Government decides to restrict any increases in the Province's unfunded pension liability, consideration should be given to paying into the Pension Fund each year amounts equal to interest calculated on the unfunded amount. Providing that the combined employer and employee contributions approximate the normal pension costs incurred, the payment of such interest will prevent the further growth of the unfunded liability.

Comments

In view of:

— the Government's ongoing review of funding of public sector pension plans,

— the lack of final acceptance of the recommendations of the Canadian Institute of Chartered Accountants (CICA) contained in its exposure draft "Pension Costs and Obligations",

— the requirement of amendment of the Pension Fund Act to permit compliance with the CICA recommendations, and

— the Auditor General's recommendation going further than those of the CICA in respect of balance sheet reporting of unfunded pension obligations.

The Government proposes to make no changes in its policy of financial statement disclosure of unfunded pension obligations at this time. The Government proposes, however, to review

its accounting policies in respect of pension costs and obligations in anticipation of generally accepted accounting policies being formulated in this area.

28. PENSION LIABILITY — INTERIM ACTUARIAL VALUATIONS
(Section 2.5.4)

Recommendation

It is recommended that consideration be given to having interim valuations of the Province's pension obligations prepared by independent actuaries at fiscal year ends when full actuarial valuations are not prepared.

Comments

Treasury obtained actuarial valuations of all pension plans that it administers at March 31, 1984 and, as part of the review referred to in response to recommendation No. 27, will obtain valuations at March 31, 1985. It is nevertheless the continuing policy of the Government to have such valuations prepared every three years. Consideration will be given to obtaining interim valuations prepared by independent actuaries at those fiscal year ends when full actuarial valuations are not prepared.

29. PENSION LIABILITY — ECONOMIC ASSUMPTIONS AND ACTUARIAL COST METHODS
(Section 2.5.4)

Recommendation

It is recommended that the Treasury Department and the Board of Administrators of the Teachers' Retirement Fund employ common economic assumptions and actuarial cost methods when valuing the pension plans administered by the Province of Alberta and the Teachers' Retirement Fund. Furthermore, similar action to that taken in response to recommendations No. 27 and 28 above, should also be considered to address the unfunded portions of the Teachers' Retirement Fund Pension Plan.

Comments

While Treasury and the Board of Administrators of the Teachers' Retirement Fund determined the economic assumptions used in the March 31, 1984 valuations independently, in review of the valuations, the Auditor General's consulting actuary concluded that the long term assumptions used were quite similar and the actuarial cost method used to determine the accrued liability was the same. However, Treasury will continue discussions with the Board of Administrators in an attempt to have complete and interim valuations prepared on the same basis and using the same economic assumptions. The Government as sponsor and guarantor of the Teachers' Retirement Plan will apply to the pension costs and obligations of that plan those accounting and disclosure policies that it will adopt in respect of other public sector pension plans that it administers.

30. TIMELY FINANCIAL REPORTING
(Section 2.5.5)

Recommendation

It is recommended that the Treasury Department facilitate action involving all concerned to determine the feasibility, including ways and means, of more timely financial reporting to the Legislative Assembly. Such action should include seeking and addressing the requirements of the Select Standing Committee on Public Accounts for more timely reports on the Province's financial affairs.

Comments

The Government continues to agree that timeliness is an important objective of financial reporting. However, because of the continuously changing circumstances, means other than a task force and cost benefit study, as referred to by the Auditor General in the preamble to his recommendation, might more readily contribute to the achievement of that objective. Early detection of problems and communication between the Auditor General, the Controller and management of departments or agencies experiencing year end reporting problems should assist in achieving continuing improvements in timeliness of financial reporting.

APPENDIX II

TAXATION REVENUES

Taxation revenues reported in the Province's consolidated financial statements for the past four years comprised:

	1981-82	1982-83	1983-84	1984-85
		(Thousands of Dollars)		
Personal income taxes	$1,332,762	$1,662,486	$1,509,933	$1,456,652
Corporate income taxes	547,710	565,727	730,840	762,099
Freehold mineral rights tax	134,826	155,897	159,953	185,527
Contributions from municipalities on equalized assessment	123,874	146,448	154,977	153,075
Tobacco tax	26,663	32,606	98,609	100,169
Miscellaneous	97,761	99,655	105,152	127,140
Total	$2,263,596	$2,662,819	$2,759,464	$2,784,662

Note 1(c) to the consolidated financial statements explains that personal and corporate income tax revenues are reported on a cash basis. This means that the figures in the public accounts represent cash received during the year without adjustments for taxes owed or prepaid to the Province at the beginning and end of each fiscal year.

Furthermore, both personal and corporate income taxes are reported net of various allowances, rebates and credits. These deductions are commonly referred to as tax expenditures since, in effect, they are expenditure programs that are "disbursed" by allowing the programs' recipients to deduct their benefits from taxes payable to the Province.

Since the public accounts do not report the costs of all tax expenditure programs separately, the information is provided in this report. It should be noted, however, that although both federal and provincial legislation affect Alberta income tax payable, only the costs of Provincial incentives that affect tax payable without changing taxable income, are reported here since they are Alberta programs.

The Province has two methods of collecting income taxes:
UF30—
The first method is used to collect income taxes from individuals:

Under this method the Government of Canada, as agent of the Province, assesses for and on behalf of the Province net individual income taxes imposed under the Alberta Income Tax Act and remits amounts in respect thereof to the Province.

The tax collection agreement provides that for each taxation year, the Government of Canada shall pay instalments on account to the Province beginning on March 1 of the taxation year in question and ending in February of the next taxation year. These instalments on account are based on estimates of Provincial income tax assessments as calculated by the Government of Canada.

The Government of Canada settles with the Province for the taxes assessed for a taxation year as follows:

i) The settlement date is fifteen months after the end of the taxation year.

ii) The settlement amount is determined by the assessments issued, for the taxation year in question, until the end of the following taxation year.

iii) Taxes assessed after the aforementioned cut-off date are paid to the Province with the settlements for subsequent taxation years.

All costs, charges and expenses, including the cost of bad debts written off, incurred in the collection of taxes by the Government of Canada to administer the Alberta Income Tax Act are paid by the Government of Canada. In consideration of the collection of taxes by the Government of Canada, the Province allows the Government of Canada to retain any penalties, fines or other amounts awarded

in judicial proceedings (except penalties imposed under section 27 of the Provincial Act) together with any interest that is payable by a taxpayer under the Provincial Act. The Government of Canada charges fees to the Province for administering the Provincial tax credit, tax rebate and other tax reduction programs.

— The second method is used to collect income taxes from corporations:

Under the Alberta Corporate Income Tax Act, corporations pay instalments on account to and file income tax returns with the Province. For fiscal years commencing prior to January 1, 1981, corporations filed returns with the Government of Canada in a similar manner to individuals.

Subsection 3.7.5 of this report notes that in previous annual reports, the Auditor General has suggested that the Treasury Department take steps to estimate how much of the personal income taxes to which Alberta is entitled should be assessed and collected by the Government of Canada. Not only would this provide information as to whether the Province is receiving a reasonable portion of its tax entitlement, it could also provide estimates of personal income tax revenues payable to or by the Province at fiscal year ends. Since the Province assesses and collects its own corporate income taxes, it would then be in a position to report personal and corporate income taxes on an accrual basis rather than on a cash basis.

The following figures show individual and corporate income tax instalments received on account and the cost of related Provincial tax reduction programs and administration fees paid to the Government of Canada for the years ended March 31, 1982 to 1985. Except for corporate income tax figures for recent years, these figures are extracted from information supplied by the Government of Canada:

PERSONAL INCOME TAXES

	1981-82	1982-83	1983-84	1984-85
		(Thousands of Dollars)		
Assessments and instalments on account (Note 1)	$1,343,934	$1,682,048	$1,525,383	$1,528,754
Share of unapplied taxes (Note 2)	25,118	20,956	27,480	17,252
Gross receipts	1,369,052	1,703,004	1,552,863	1,546,006
Less:				
Renter assistance credits	33,543	37,332	38,869	86,164
Royalty tax rebates	2,054	2,338	2,399	1,607
Political contribution tax credits	234	325	953	417
Total tax credits, rebates and deductions	35,831	39,995	42,221	88,188
Administration fees	459	523	709	1,166
Total deductions	36,290	40,518	42,930	89,354
Net receipts	$1,332,762	$1,662,486	$1,509,933	$1,456,652

Notes:

1) Assessments are reported net of foreign income tax deductions, selective tax reductions, penalties assessed under section 27 of the Alberta Income Tax Act and remissions of income taxes payable on Alberta social assistance payments and on benefits and allowances to employees in isolated posts.

2) Unapplied taxes are amounts deducted at source from employees that have not, because of the failure of some employees to file tax returns, been allocated to the different jurisdictions.

3) Royalty tax credits totalling $10,063,000, $12,344,000, $28,666,000 and $28,373,000 were allowed against the assessments for 1981-82, 1982-83, 1983-84 and 1984-85 respectively. They are not included in the above figures because, for reporting purposes, they are deducted from non-renewable resource revenue in the public accounts of the Province.

CORPORATE INCOME TAXES

	1981-82	1982-83	1983-84	1984-85
		(Thousands of Dollars)		
Assessments and instalments on account (Note 1)	$718,657	$736,606	$871,423	$893,662
Allocated to the Utility Companies Income Tax Rebates Fund (Note 2)	33,028	42,862	50,806	65,616
Gross receipts	685,629	693,744	820,617	828,046
Less:				
Small business deductions	70,819	101,553	81,453	50,874
Royalty tax rebates (Note 3)	66,581	24,186	5,631	11,231
Extended rental investment tax credit	—	—	505	1,232
Rental investment tax credits	—	476	571	141
Foreign tax credits	172	1,072	420	1,610
Corporation capital gains refunds	280	582	983	749
Political contribution tax credits	17	98	214	110
Total tax credits, rebates and deductions	137,869	127,967	89,777	65,947
Administration fees	50	50	—	—
Total deductions	137,919	128,017	89,777	65,947
Net receipts	$547,710	$565,727	$730,840	$762,099

Notes:

1) Assessments are reported net of royalty tax deductions where applicable (see Note 3) and include penalties and interest received under the Alberta Corporate Income Tax Act. Interest paid under the aforementioned Act is reported as a budgetary expenditure.

2) Allocations to the Utility Companies Income Tax Rebates Fund are made under section 3 of the Utility Companies Income Tax Rebates Act. The allocations are based on Provincial income taxes paid or estimated to have been paid by utility companies, carrying on business in Alberta, on revenues earned on sales of electrical energy, gas or steam in the Province to the public. The utility companies have agreed with the Provincial Treasurer that all payments made to them will be distributed to persons who are their wholesale or retail customers in Alberta.

3) Under the Alberta Corporate Income Tax Act there are no royalty tax rebates. Instead, a royalty tax deduction from taxable income is allowed before applying the Alberta allocation factor. This has the same effect as a royalty tax rebate on corporate income taxes payable to the Province. This change has resulted in a reduction of royalty tax rebates and an offsetting reduction in assessments and instalments on account. Royalty tax deductions, which are not separately shown above, reduced the taxes assessed in the 1984-85 and 1983-84 fiscal years by $112,162,837 and $146,014,434 respectively.

4) Royalty tax credits totalling $131,994,000, $728,238,000, $578,773,000 and $367,495,000 were allowed against the assessments for 1981-82, 1982-83, 1983-84 and 1984-85 respectively. They are not included in the above figures because, for reporting purposes, they are deducted from non-renewable resource revenue in the public accounts of the Province.

APPENDIX III

AUDITOR GENERAL ACT

CHAPTER A-49

HER MAJESTY, by and with the advice and consent of the Legislative Assembly of Alberta, enacts as follows:

Definitions

1 In this Act,

(a) "Auditor General" means the Auditor General of Alberta;

(b) "Crown-controlled organization" means

(i) a corporation that is incorporated by or under an Act of the Legislature, other than a local or private Act, one or more but less than a majority of whose members or directors are appointed or designated, either by their personal names or by their names of office, by an Act of the Legislature or regulations under an Act of the Legislature, by an order of the Lieutenant Governor in Council or of a Minister of the Crown or by any combination thereof, or

(ii) an unincorporated board, commission, council or other body that is not a department or part of a department, one or more but less than a majority of whose members are appointed or designated, either by their personal names or by their names of office, by an Act of the Legislature or regulations under an Act of the Legislature, by an order of the Lieutenant Governor in Council or of a Minister of the Crown or by any combination thereof,

that is responsible for the administration of public money or assets owned by the Crown, and includes a corporation, more than 50% but less than 100% of whose issued voting shares are owned by the Crown or held in trust for the Crown or are partly owned by the Crown and partly held in trust for the Crown;

(c) "department" means a department as defined in section 1 of the *Financial Administration Act* and includes

(i) the Legislative Assembly Office,

(ii) the Ombudsman and the staff of the Office of the Ombudsman, and

(iii) the Chief Electoral Officer and the staff of the Office of the Chief Electoral Officer;

September 1, 1983

(d) "employee of the Office of the Auditor General" includes a person engaged on a fee basis by the Auditor General;

(e) "public money" means public money as defined in the *Financial Administration Act* and includes money forming part of the Treasury Branches Deposits Fund;

(f) "regulated fund" means a regulated fund as defined in the *Financial Administration Act* and includes the Treasury Branches Deposits Fund;

(g) "Select Standing Committee" means the Select Standing Committee on Legislative Offices;

(h) "voting share" means a share of any class of shares of a corporation carrying full or limited voting rights ordinarily exercisable at meetings of shareholders of the corporation or a share of any class of shares of a corporation carrying voting rights by reason of a contingency that has occurred and is continuing.

RSA 1980 cA-49 s1;1983 cL-10.1 s57

Meaning of other words

2 Except as provided in section 1, words or expressions defined in the *Financial Administration Act* have the same meaning in this Act.

RSA 1980 cA-49 s2

Appointment of Auditor General

3(1) There shall be appointed pursuant to this Act an Auditor General who shall be an officer of the Legislature.

(2) Subject to section 6, the Lieutenant Governor in Council shall appoint the Auditor General, on the recommendation of the Assembly, for a term not exceeding 8 years.

(3) An Auditor General is eligible for reappointment under subsection (2).

RSA 1980 cA-49 s3

Resignation of Auditor General

4 The Auditor General may at any time resign his office by writing addressed to the Speaker of the Assembly or, if there is no Speaker or if the Speaker is absent from Alberta, to the Clerk of the Assembly.

RSA 1980 cA-49 s4

Suspension or removal from office

5 On the recommendation of the Assembly, the Lieutenant Governor in Council may, at any time, suspend or remove the Auditor General from office.

RSA 1980 cA-49 s5

Vacancy in office

6(1) If a vacancy in the office of the Auditor General occurs while the Legislature is in session but no recommendation is made by the Assembly before the close of that session, subsection (2) applies as if the vacancy had occurred while the Legislature was not in session.

(2) If a vacancy occurs while the Legislature is not in session, the Lieutenant Governor in Council, on the recommendation of the Select Standing Committee, may appoint an Auditor General to fill the vacancy and unless his office sooner becomes vacant, the person so

appointed holds office until an Auditor General is appointed under section 3, but if an appointment under section 3 is not made within 30 days after the commencement of the next ensuing session, the appointment under this subsection lapses and there shall be deemed to be another vacancy in the office of Auditor General.

RSA 1980 cA-49 s6

Salary and benefits

7(1) The Auditor General shall be paid a salary at a rate set by the Select Standing Committee and the Select Standing Committee shall review that salary rate at least once a year.

(2) The Auditor General shall receive similar benefits as are provided to Deputy Ministers.

RSA 1980 cA-49 s7

Acting Auditor General

8(1) The Auditor General may appoint an employee of the Office of the Auditor General as Acting Auditor General.

(2) If there is neither an Auditor General nor an Acting Auditor General, the Lieutenant Governor in Council may appoint a person as Acting Auditor General to hold office until an Acting Auditor General is appointed under subsection (1).

(3) In the event of the absence or inability to act of the Auditor General, or when there is a vacancy in the office of the Auditor General, the Acting Auditor General has all the powers and shall perform the duties of the Auditor General.

RSA 1980 cA-49 s8

Office of the Auditor General

9(1) There shall be a department of the public service of Alberta called the Office of the Auditor General consisting of the Auditor General and those persons employed pursuant to the *Public Service Act* as are necessary to assist the Auditor General in carrying out his functions under this or any other Act.

(2) On the recommendations of the Auditor General, the Select Standing Committee may order that

(a) any regulation, order or directive made under the *Financial Administration Act*, or

(b) any regulation, order, directive, rule, procedure, direction, allocation, designation or other decision under the *Public Service Act*,

be inapplicable to, or be varied in respect of, the Office of the Auditor General or any particular employee or class of employees in the Office of the Auditor General.

(3) An order made under subsection (2)(a) in relation to a regulation, order or directive made under the *Financial Administration Act* operates notwithstanding that Act.

(4) The *Regulations Act* does not apply to orders made under subsection (2).

September 1, 1983

(5) The chairman of the Select Standing Committee shall lay a copy of each order made under subsection (2) before the Assembly if it is then sitting or, if it is not then sitting, within 15 days after the commencement of the next sitting.

RSA cA-49 s9;1983 cL-10.1 s57

Engagement of services on fee basis

10 The Auditor General may engage, on a fee basis, any person to act as his agent for the purpose of conducting an audit or examination that the Auditor General is empowered or required to conduct or to perform a service that the Auditor General considers necessary in order to properly exercise or perform his powers and duties.

RSA 1980 cA-49 s10

Delegation of power or duty

11(1) Subject to subsection (2), the Auditor General may delegate to an employee of the Office of the Auditor General any power or duty conferred or imposed on the Auditor General by this or any other Act.

(2) The Auditor General may not delegate a power or duty to report

(a) to the Assembly or a committee of the Assembly, without the consent of the Assembly or the committee to which the report is to be made, or

(b) to the Lieutenant Governor in Council, without the consent of the Lieutenant Governor in Council.

RSA 1980 cA-49 s11

Auditor General as auditor

12 The Auditor General

(a) is the auditor of every department, regulated fund, revolving fund and Provincial agency, and

(b) may with the approval of the Select Standing Committee be appointed by a Crown-controlled organization or any other organization or body as the auditor of that Crown-controlled organization or other organization or body.

RSA 1980 cA-49 s12

Financing of operations

13(1) The Auditor General shall submit to the Select Standing Committee in respect of each fiscal year an estimate of the sum that will be required to be provided by the Legislature to defray the several charges and expenses of the Office of the Auditor General in that fiscal year.

(2) The Select Standing Committee shall review each estimate submitted pursuant to subsection (1) and, on the completion of the review, the chairman of the Committee shall transmit the estimate to the Treasurer for presentation to the Assembly.

(3) If at any time the Legislative Assembly is not in session the Select Standing Committee, or if there is no Select Standing Committee, the Provincial Treasurer,

(a) reports that the Auditor General has certified that in the pub-

lic interest, an expenditure of public money is urgently required in respect to any matter pertaining to his office, and

(b) reports that either

(i) there is no supply vote under which an expenditure with respect to that matter may be made, or

(ii) there is a supply vote under which an expenditure with respect to that matter may be made but the authority available under the supply vote is insufficient,

the Lieutenant Governor in Council may order a special warrant to be prepared to be signed by himself authorizing the expenditure of the amount estimated to be required.

(4) When the Legislative Assembly is adjourned for a period of more than 14 days then, for the purposes of subsection (3), the Assembly shall be deemed not to be in session during the period of the adjournment.

(5) When a special warrant is prepared and signed under subsection (3) on the basis of a report referred to in subsection (3)(b)(i), the authority to spend the amount of money specified in the special warrant for the purpose specified in the special warrant is deemed to be a supply vote for the purposes of the *Financial Administration Act* for the fiscal year in which the special warrant is signed.

(6) When a special warrant is prepared and signed under subsection (3) on the basis of a report referred to in subsection (3)(b)(ii), the authority to spend the amount of money specified in the special warrant is, for the purposes of the *Financial Administration Act*, added to and deemed to be part of the supply vote to which the report relates.

(7) When a special warrant has been prepared and signed pursuant to this section, the amounts authorized by it are deemed to be included in, and not to be in addition to, the amounts authorized by the Act, not being an Act for interim supply, enacted next after it for granting to Her Majesty sums of money to defray certain expenditures of the Public Service of Alberta.

RSA 1980 cA-49 s13;1983 cL-10.1 s57

Auditor General may charge fees

14 The Auditor General may charge fees for professional services rendered by his Office on a basis approved by the Select Standing Committee.

RSA 1980 cA-49 s14

Access to information

15(1) The Auditor General is entitled to access at all reasonable times to

(a) the records of a department, fund administrator or Provincial agency, and

(b) electronic data processing equipment owned or leased by a department, fund administrator or Provincial agency,

for any purpose related to the exercise or performance of his powers and duties under this or any other Act.

(2) A public employee, public official or personal service contractor shall give to the Auditor General any information, reports or explan-

ations that the Auditor General considers necessary to enable him to exercise or perform his powers and duties under this or any other Act.

(3) The Auditor General may station in the offices of any department, fund administrator or Provincial agency, any employee of the Office of the Auditor General for the purpose of enabling the Auditor General to more effectively exercise or perform his powers and duties under this or any other Act, and the department, fund administrator or Provincial agency shall provide the necessary office accommodation for an employee so stationed.

(4) The Auditor General or an employee of the Office of the Auditor General who receives information from a person whose right to disclose that information is restricted by law, holds that information under the same restrictions respecting disclosure as governed the person from whom the information was obtained.

1977 c56 s15

Right to information

16(1) If the accounts of a Crown-controlled organization are audited other than by the Auditor General, the person performing the audit shall

(a) deliver to the Auditor General immediately after completing the audit a copy of the report of his findings and his recommendations to management and a copy of the audited financial statements of the Crown-controlled organization,

(b) make available immediately to the Auditor General on his request all working papers, reports, schedules and other documents in respect of the audit or in respect of any other audit of the Crown-controlled organization specified in the request, and

(c) provide immediately to the Auditor General on his request a full explanation of the work performed, tests and examinations made and the results obtained, and any other information within the knowledge of the person in respect of the Crown-controlled organization.

(2) If any information, explanation or document required to be delivered to or requested by the Auditor General under subsection (1) is not delivered, made available or provided to him or if the Auditor General is of the opinion that any information, explanation or document that is delivered, made available or provided to him pursuant to subsection (1) is not adequate to permit him to exercise or perform his powers and duties under this or any other Act, the Auditor General may make any additional examination or investigation of the records and operations of the Crown-controlled organization that he considers necessary.

1977 c56 s16

Special duties of Auditor General

17(1) The Auditor General shall perform such special duties as may be specified by the Assembly.

(2) The Auditor General shall perform such special duties as may be specified by the Executive Council, but only if those special duties do not conflict with or impair the exercise or performance of any of his powers and duties under this or any other Act.

1977 c56 s17

Annual report on financial statements

18(1) After the end of each fiscal year of the Crown, the Auditor General shall report to the Assembly on the financial statements of the Crown for that fiscal year.

(2) A report of the Auditor General under subsection (1) shall

(a) include a statement as to whether, in his opinion, the financial statements present fairly the financial position, results of operations and changes in financial position of the Crown in accordance with the disclosed accounting principles, and as to whether they are on a basis consistent with that of the preceding fiscal year,

(b) when the report contains a reservation of opinion by the Auditor General, state his reasons for that reservation and indicate the effect of any deficiency on the financial statements, and

(c) include any other comments related to his audit of the financial statements that he considers appropriate.

1977 c56 s18

Annual report of Auditor General

19(1) After the end of a fiscal year of the Crown, the Auditor General shall report to the Legislative Assembly

(a) on the work of his office, and

(b) on whether, in carrying on the work of his office, he received all the information, reports and explanations he required.

(2) A report of the Auditor General under subsection (1) shall include the results of his examinations of the organizations of which he is the auditor, giving details of any reservation of opinion made in an audit report, and shall call attention to every case in which he has observed that

(a) collections of public money

(i) have not been effected as required under the various Acts and regulations, directives or orders under those Acts,

(ii) have not been fully accounted for, or

(iii) have not been properly reflected in the accounts,

(b) disbursements of public money

(i) have not been made in accordance with the authority of a supply vote, Heritage Fund vote or relevant Act,

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(ii) have not complied with regulations, directives or orders applicable to those disbursements, or

(iii) have not been properly reflected in the accounts,

(c) assets acquired, administered or otherwise held have not been adequately safeguarded or accounted for,

(d) accounting systems and management control systems, including those systems designed to ensure economy and efficiency, that relate to revenue, disbursements, the preservation or use of assets or the determination of liabilities were not in existence, were inadequate or had not been complied with, or

(e) when appropriate and reasonable procedures could have been used to measure and report on the effectiveness of programs, those procedures were either not established or not being complied with,

and shall call attention to any other case that he considers should be brought to the notice of the Assembly.

(3) In a report under subsection (1), the Auditor General may

(a) comment on the financial statements of the Crown, Provincial agencies, Crown-controlled organizations or any other organization or body of which he is the auditor on any matter contained in them and on

(i) the accounting policies employed, and

(ii) whether the substance of any significant underlying financial matter that has come to his attention is adequately disclosed,

(b) include summarized information and the financial statements of an organization on which he is reporting or summaries of those financial statements, and

(c) comment on the suitability of the form of the estimates as a basis for controlling disbursements for the fiscal year under review.

(4) The annual report shall be presented by the Auditor General to the chairman of the Select Standing Committee who shall lay the report before the Assembly forthwith if it is then sitting or, if it is not sitting, within 15 days after the commencement of the next sitting.

(5) The Auditor General need not report on deficiencies in systems or procedures otherwise subject to report under subsection (2)(d) or (e) which, in his opinion, have been or are being rectified.

1977 c56 s19

Special reports

20(1) The Auditor General may prepare a special report to the

Assembly on any matter of importance or urgency that, in his opinion, should not be deferred until the presentation of his annual report under section 19.

(2) A report prepared pursuant to this section shall be presented to the chairman of the Select Standing Committee who shall lay the report before the Assembly forthwith if it is then sitting or, if it is not sitting, within 15 days after the commencement of the next sitting.

1977 c56 s20

Establishment of Audit Committee

21(1) There is hereby established a committee called the Audit Committee consisting of not more than 7 persons appointed as members of the Committee by the Lieutenant Governor in Council.

(2) The Lieutenant Governor in Council shall designate one of the members of the Audit Committee as chairman.

(3) The Lieutenant Governor in Council may authorize, fix and provide for the payment of remuneration and expenses to the members of the Audit Committee.

1977 c56 s21

Meetings of Audit Committee

22(1) The Audit Committee may make rules, not inconsistent with this Act, respecting the calling of, and the conduct of business at, its meetings.

(2) The chairman of the Audit Committee shall, on request of the Auditor General, call a meeting of the Audit Committee to review any matter that the Auditor General considers should be brought to the attention of the Audit Committee.

1977 c56 s22

Information re scope and results of audit

23 The Auditor General shall give to the Audit Committee any information that he considers reasonable and appropriate to enable the Audit Committee to advise the Lieutenant Governor in Council on the scope and results of the Auditor General's audit of departments, regulated funds, revolving funds, Provincial agencies and Crown-controlled organizations.

1977 c56 s23

Availability of reports

24 An annual report of the Auditor General and any special report made under section 20 shall be made available to the Audit Committee before it is presented to the chairman of the Select Standing Committee.

1977 c56 s24

When report not required

25 In a report made under this or any other Act the Auditor General need not report on matters that are, in his opinion, immaterial or insignificant.

1977 c56 s25

Supplementary information

26 The Auditor General shall, at the request of a select standing committee of the Assembly engaged in reviewing financial statements of the Crown or an organization of which he is the auditor, attend

the meetings of the committee in order to give supplementary information to the committee respecting the financial statements or a report of the Auditor General.

1977 c56 s26

Audit working papers

27 Audit working papers of the Office of the Auditor General shall not be tabled in the Legislative Assembly or before a Committee of the Legislative Assembly.

1977 c56 s27

Report after examination

28 The Auditor General shall as soon as practicable advise the appropriate officers or employees of a department, Provincial agency or Crown-controlled organization of any matter discovered in his examinations that, in the opinion of the Auditor General, is material to the operation of the department, Provincial agency or Crown-controlled organization, and shall as soon as practicable advise the Treasurer of any of those matters that, in the opinion of the Auditor General, are material to the exercise or performance of the Treasurer's powers and duties.

1977 c56 s28

Advice on organization, systems, etc.

29 The Auditor General may, at the request of a department, Provincial agency or Crown-controlled organization or any other organization or body of which he is the auditor, provide advice relating to the organization, systems and proposed course of action of the department, Provincial agency or Crown-controlled or other organization or body.

1977 c56 s29

Annual audit

30(1) The Select Standing Committee shall appoint an auditor to audit the receipts and disbursements of the Office of the Auditor General.

(2) An auditor appointed under subsection (1) has the same powers and shall perform the same duties in relation to an audit of the receipts and disbursements of the Office of the Auditor General as the Auditor General has or performs in relation to an audit of the receipts and disbursements of a department.

(3) An auditor appointed under subsection (1) shall report the results of his audit annually to the Select Standing Committee.

(4) A report made under this section shall be presented to the chairman of the Select Standing Committee and to the Treasurer for inclusion in the public accounts.

1977 c56 s30